

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008  
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, 2008, 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 activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce** as of June 30, 2008 and the respective change in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, 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 reports dated May 14, 2009 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 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 inquiries 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **the Municipality's** basic financial statements. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 14, 2009

A handwritten signature in black ink, appearing to read "Wajudin et al CPA Group". The signature is written in a cursive style and is positioned to the right of the date.

License number 200  
Ponce, Puerto Rico

Stamp number 2435589 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, 2008**

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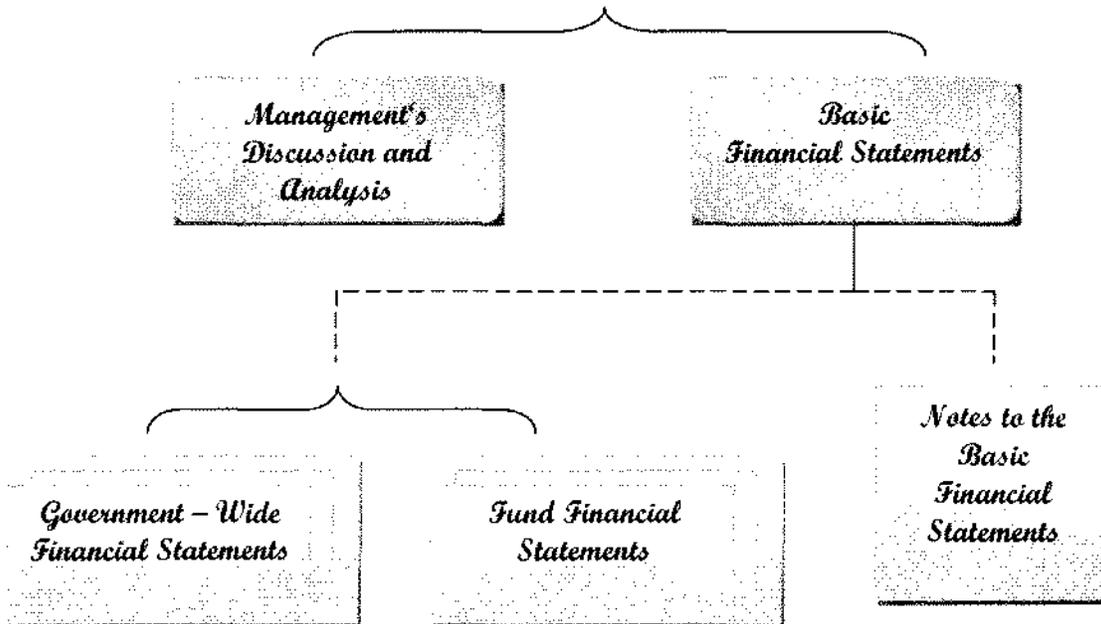
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2008. 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 a 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 using 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, 2008

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#### GOVERNMENT-WIDE FINANCIAL STATEMENTS, Continue

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**.

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, 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 government-wide financial statements can be found on pages 15 to 17 of this report.

#### GOVERNMENTAL FUNDS

Government 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 use the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable 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. The Others Funds include the Municipal Bank. 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 24 and 25 of this report.

The governmental funds financial statements can be found on pages 18 to 22 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 26 to 50 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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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, 2008 were \$308.8 millions, as compared to \$273.7 millions in 2007.
- At June 30, 2008, **the Municipality's** governmental funds reported total ending fund balances of \$5.24 millions. Capital Projects fund balance had an ending balance of \$9.42 millions.
- For the year ended June 30, 2008, **the Municipality** had total revenues of \$163.54 millions. The general fund shown revenues by \$116.09 millions, which represent 71% of total revenues.
- The investment in capital assets, net of related of debt, for this year was \$205.32 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**

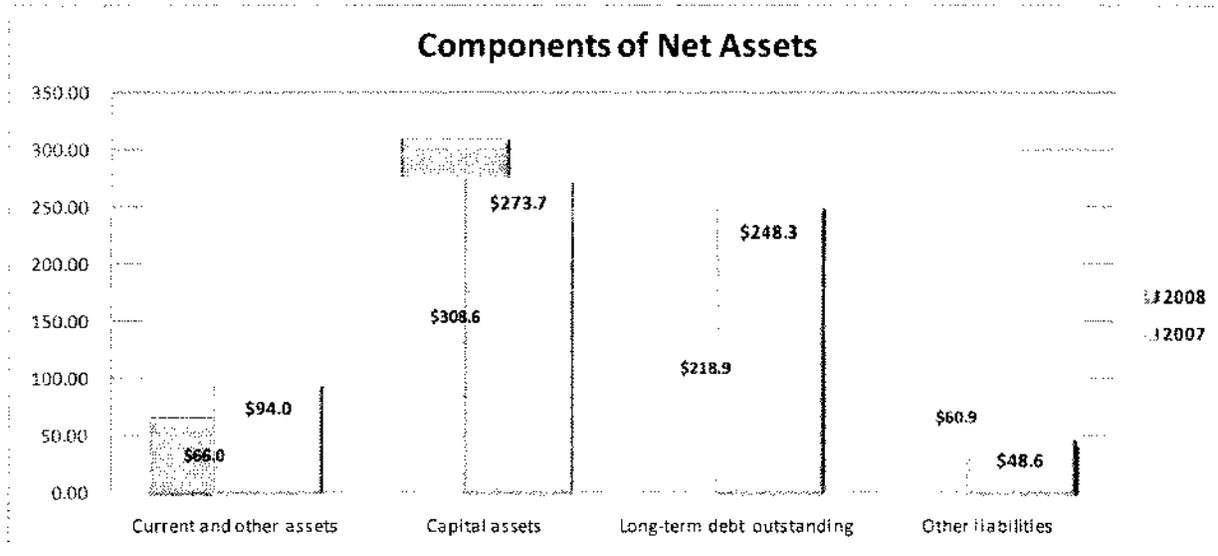
Net assets of **the Municipality's** governmental activities decreased from \$106.12 millions in 2007 to \$94.76 millions of 2008. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased from approximately \$119.54 millions at June 30, 2007 to approximately \$136.69 millions at June 30, 2008.

**TABLE 1  
NET ASSETS**

	<u>Governmental Activities</u>	
	2008	2007
Current and other assets	\$ 65.98	\$ 94.02
Capital assets	<u>308.81</u>	<u>273.69</u>
Total assets	<u>374.79</u>	<u>367.71</u>
Long-term debt outstanding	218.86	213.00
Other liabilities	<u>60.95</u>	<u>48.59</u>
Total liabilities	<u>279.81</u>	<u>261.59</u>
Net assets:		
Invested in capital assets, net of related debt	205.32	167.65
Restricted for:		
Debt services	2.35	3.51
Capital projects	9.42	33.52
Federal grants	5.42	6.84
Special purposes	8.18	14.14
Unrestricted	<u>(135.71)</u>	<u>(119.54)</u>
Total net assets	<u>\$ 94.98</u>	<u>\$ 106.12</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008



Total revenues for **the Municipality's** governmental activities increased by \$5.4 millions in 2008, without contemplate the extinguishment of \$40 millions recognized in the financial statements of 2007. The total expenses increased by \$26 millions.

During the fiscal year **the Municipality** took the following major actions 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 lease, 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.
- 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**

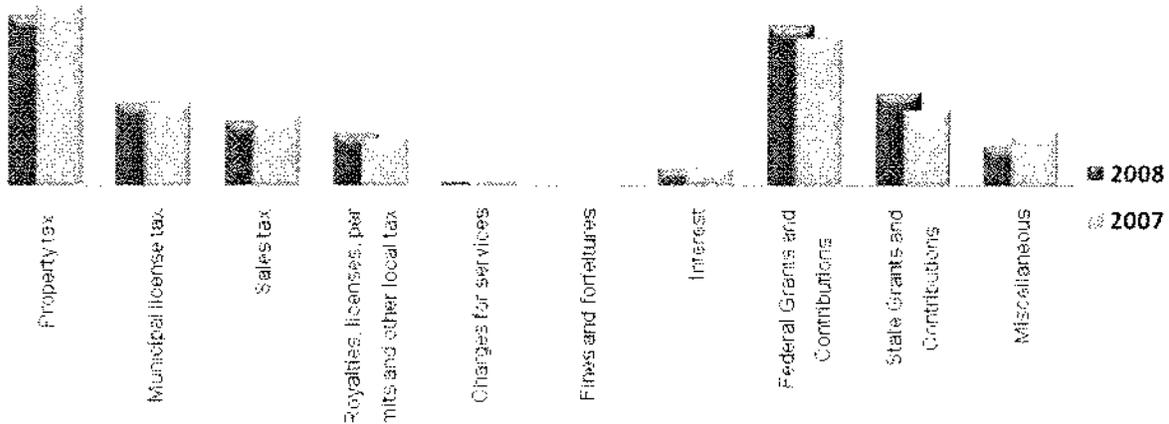
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Revenues in the statement of revenues, expenditures and changes in fund balances, pages 21 and 22, for the fiscal years ended June 30, 2008 were as follows:

**TABLE 2  
GOVERNMENTAL REVENUES**

	<b>Total Revenues</b>	
	<b>2008</b>	<b>2007</b>
Property tax	\$ 40.74	\$ 43.18
Municipal license tax	19.70	19.78
Sales tax	15.53	16.43
Royalties, licenses, permits and other local tax	12.45	11.17
Charges for services	0.92	0.78
Fines and forfeitures	0.46	0.23
Interest	3.75	4.07
Federal Grants and Contributions	38.27	35.37
State Grants and Contributions	22.07	18.08
Miscellaneous	9.65	12.67
<b>Total</b>	<u>\$ 163.54</u>	<u>\$ 161.76</u>

**GOVERNMENTAL REVENUES**



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

**Government-wide financial statements**

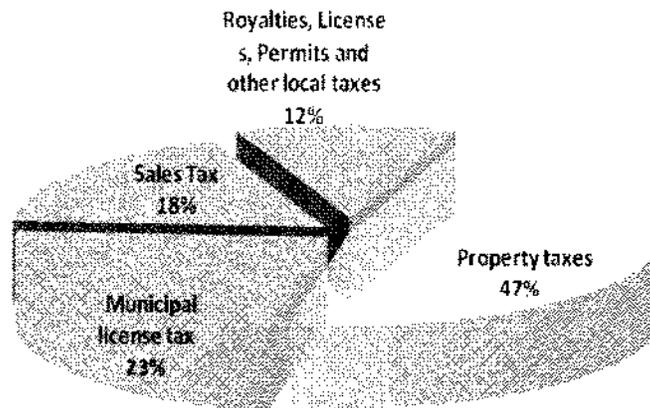
The statement of activities presented on page 17, provide detailed information about the most significant funds, of **the Municipality**.

The principal governmental revenues including, property tax, municipal license tax, sales tax and licenses and permits amounted to \$85.82 millions in 2008 and \$87.75 millions in 2007.

**The Municipality's** governmental funds reported a change in net assets of \$10.31 millions in 2008 and \$50.63 millions in 2007. Table 3 and 4 shown the principal resources collected by governmental activities:

**TABLE 3  
GOVERNMENTAL ACTIVITIES REVENUES**

<b>General Revenues by Major Sources</b>		
	<b>2008</b>	<b>2007</b>
Property tax	\$ 40.74	\$ 43.18
Municipal license tax	19.70	19.78
Sales tax	15.53	16.43
Licenses, permits and other local tax	<u>9.85</u>	<u>8.36</u>
	\$ 85.82	\$ 87.75



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

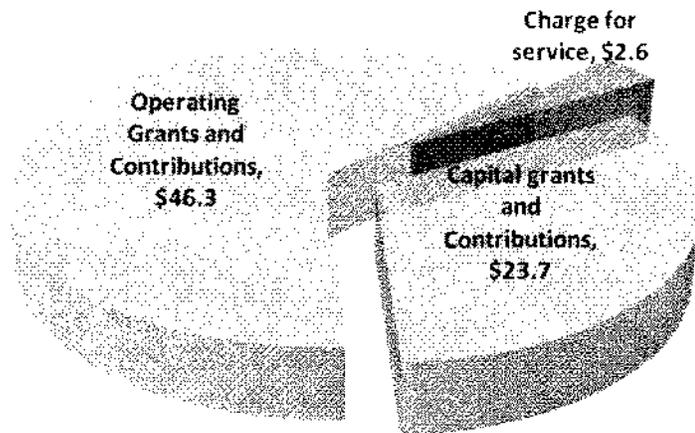
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE 4

GOVERNMENTAL ACTIVITIES

Program Revenues by Major Sources

	2008	2007
Charges for service	\$ 2.60	\$ 2.81
Operating grants and contributions	46.29	41.88
Capital grants and contributions	<u>23.70</u>	23.51
Total	<u>\$ 72.59</u>	<u>\$ 68.20</u>



The cost of all governmental activities for the year ended June 30, 2008 was \$174.07 millions as compared to \$147.50 millions in prior year. Table 5 below, presents the cost of each of **the Municipality's** largest program expenses for the fiscal year ended June 30, 2008.

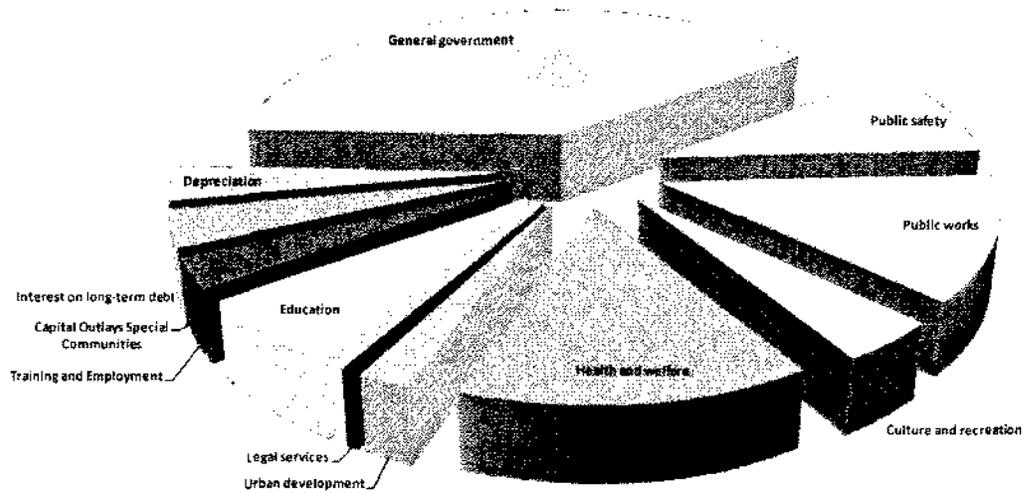
COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE 5

GOVERNMENTAL ACTIVITIES

	Total Expenses	
	2008	2007
General government	\$ 68.39	\$ 45.36
Public safety	16.21	11.24
Public work	22.12	18.92
Culture and recreation	7.30	7.18
Health and welfare	25.19	24.73
Urban development	3.75	3.51
Legal services	.97	1.29
Education	12.17	12.06
Training and employment	5.48	3.86
Capital outlays - special communities	-	2.89
Capital outlays - projects	-	2.74
Interest on long-term debt	6.56	8.54
Depreciation	5.92	5.18
	<u>\$ 174.07</u>	<u>\$ 147.50</u>



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**Fund financial statements**

Governmental funds, as presented in the balance sheet on pages 18 and 19 reported a total fund balance of \$5.03 millions in 2008, and \$44.6 millions in 2007.

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

- During the fiscal year, **the Municipality** maintained a revenue trend in property tax due to the effort of **the Municipality's** property tax office.
- State contributions of approximately \$32.1 millions; principally include \$14.25 millions of Departamento de Recursos Naturales y Ambientales, and \$10.05 of in lieu of tax provided by PR Electric Power Authority.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

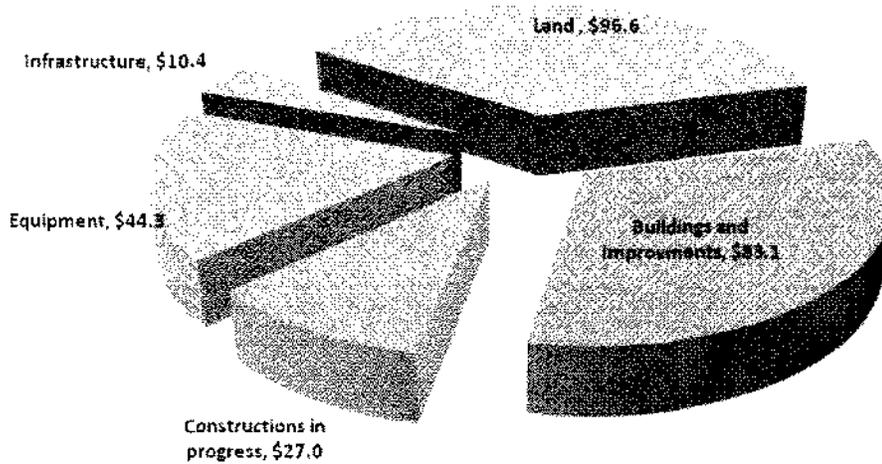
As of June 30, 2008, **the Municipality** had \$371.49 millions invested in a broad range of capital assets: including buildings, parks, roads, bridges, and equipment, see Table 6 below. This amount represents a net increase of \$41.04 millions.

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

	<u>Governmental Activities</u>	
	<b>2008</b>	<b>2007</b>
Land and land improvements	\$ 96.62	\$ 78.47
Buildings and improvements	83.12	68.82
Construction in progress	27.04	26.33
Equipment	44.32	41.53
Infrastructure	<u>120.39</u>	<u>115.30</u>
Total	<u>\$ 371.49</u>	<u>\$ 330.45</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**



Buildings and improvements increased by approximately \$14.30 and land and land improvements increased by \$18.15 millions, mainly due to the modernization of Julio E. Monagas Park was substantially completed in this fiscal year. Detailed information about **the Municipality's** capital assets is presented in Note 11 to the basic financial statements.

**Debt**

At year-end, **the Municipality** had \$218.86 millions in bonds, notes and other long-term debts outstanding as compared to \$212.17 millions in prior year, increased by \$6.69 millions, as shown in Table 7 below.

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

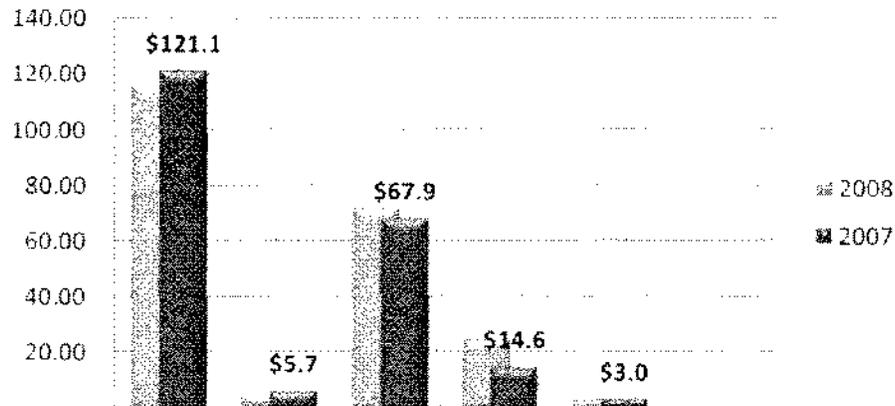
	<u>Governmental Activities</u>	
	2008	2007
General and special obligation	\$ 115.67	\$ 121.09
Loan guarantee assistance notes	4.79	5.71
Advances from CRIM	71.36	67.86
Other obligations	24.42	14.55
Interest due for accounts sold	2.62	2.96
<b>Total</b>	<b>\$ 218.86</b>	<b>\$ 212.17</b>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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**OUTSTANDING DEBT**  
(in millions)



**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 tax 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 16 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 2007-2008 budget.

The statement of revenues and expenditures - general fund - budget and actual in page 24 presented a final budgeted excess of expenditure over revenues of approximately \$9.41 millions.

The original and final budget (General Fund and Debt Service Fund) 2007-08 are presented in pages 24 and 25 providing detailed information to legal compliance.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**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, 2008**

ASSETS	Governmental Activities	Component Units		
		Port of Ponce	CODEZOL	Patronato
Cash (Notes 1 and 4)	\$ 6,354,798	\$ 2,068,576	\$ 349,040	\$ 348,795
Accounts receivable, net (Note 1):				
Municipal license tax (Notes 6 and 9)	333,598			
Sales tax (Notes 7 and 9)	957,215			
Loans	584,364			
Other (Note 9)	504,686	155,588	113,611	34,673
Due from local government (Note 10)	4,811,185			
Due from federal government (Note 10)	8,114,688			
Other assets		27,992	14,816	27,116
Restricted assets:				
Cash and cash equivalents (Notes 1 and 4)	27,051,827		100,000	
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	17,269,409			
Capital assets (Notes 1 and 11):				
Non-depreciable	74,946,908			139,587
Depreciable, net of accumulated depreciation	<u>233,859,216</u>	<u>2,644,339</u>	<u>99,722</u>	<u>378,066</u>
Total assets	<u>374,787,894</u>	<u>4,896,495</u>	<u>677,189</u>	<u>928,237</u>

See notes to the basic financial statements.

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

STATEMENT OF NET ASSETS (CONTINUE)

JUNE 30, 2008

	Governmental Activities	Component Units		
		Port of Ponce	CODEZOL	Patronato
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities (Note 12)	\$ 28,453,979	\$ 591,816	\$ 41,856	\$ 203,649
Due to other agencies (Note 13)	10,669,610			
Due to primary government		400,894		
Deferred revenues (Note 15):				8,982
Municipal license tax	16,101,848			
Federal government	4,037,252			
Other	9,838			
Accrued interest	2,376,090			
Non current liabilities (Note 16):				
Due within one year	13,446,548			
Due after one year	205,410,967			
Total liabilities	<u>280,506,132</u>	<u>992,710</u>	<u>41,856</u>	<u>212,631</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related debt	205,315,124			
Restricted for:				
Federal grants	5,422,023			
Debt service	2,351,860			
Special purposes	8,942,807			115,561
Capital projects	9,422,868			
Unrestricted (deficit) net assets	<u>(137,172,920)</u>	<u>3,903,785</u>	<u>635,333</u>	<u>600,045</u>
Total net assets	<u>\$ 94,281,762</u>	<u>\$ 3,903,785</u>	<u>\$ 635,333</u>	<u>\$ 715,606</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, 2008

Functions/Programs	Program Revenues				Primary Governmental Activities	Net (Expense) Revenue and Changes in Net Assets		
	Expenses	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	\$ 68,872,427		\$ 7,950,515		\$ (60,921,912)			
Public safety	16,218,327		1,049,743		(15,168,584)			
Public works	22,121,262	\$ 2,602,497		\$ 23,703,480	4,184,715			
Culture and recreation	7,295,756				(7,295,756)			
Health and welfare	25,193,326		15,145,086		(10,048,240)			
Urban development	3,751,675		5,288,913		1,537,238			
Legal services	971,169				(971,169)			
Education	12,171,060		12,626,197		455,137			
Training and employment	5,476,250		4,230,874		(1,245,376)			
Depreciation	5,924,229				(5,924,229)			
Interest	6,556,722				(6,556,722)			
TOTAL	<u>\$ 174,552,203</u>	<u>\$ 2,602,497</u>	<u>\$ 46,291,328</u>	<u>\$ 23,703,480</u>	<u>(101,954,898)</u>			
<b>COMPONENT UNITS:</b>								
Port of Ponce	\$ 1,982,451	\$ 1,450,809			\$ (531,642)			
CODEZOL	476,621	253,351				\$ (223,270)		
Patronato	1,324,420	1,387,571					\$ 63,151	
TOTAL	<u>\$ 3,783,492</u>	<u>\$ 3,091,731</u>			<u>(531,642)</u>	<u>(223,270)</u>		<u>\$ 63,151</u>
General revenues:								
Property tax (Note 5)					40,737,505			
Municipal license tax (Note 6)					19,702,075			
Sales tax (Note 7)					15,526,051			
Licenses, permits and other local tax					9,854,304			
Interest					3,748,244	49,978		10,503
Other					1,378,651	41,218	19,828	18,992
Total general revenues					<u>90,946,830</u>	<u>91,196</u>	<u>19,828</u>	<u>29,495</u>
Change in net assets					(11,008,068)	(440,446)	(203,442)	92,646
Net assets, beginning of year, as previously reported					106,115,740	4,344,231	838,775	622,960
Prior period adjustments (Note 23)					(825,910)			
Net assets, beginning of year, as restated					<u>105,289,830</u>			
Net assets, end of year					<u>\$ 94,281,762</u>	<u>\$ 3,903,785</u>	<u>\$ 635,333</u>	<u>\$715,606</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS  
 JUNE 30, 2008

	<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)	\$ 6,354,798						\$ 6,354,798
Accounts receivable, net (Notes 1 and 9):							
Municipal license tax	333,598						333,598
Sales tax	957,215						957,215
Other	423,496				\$ 69,456	\$ 11,732	504,684
Loans receivable						584,364	584,364
Due from local government (Note 10)	3,450,748		\$ 932,404	\$ 428,033			4,811,185
Due from federal government (Note 10)		\$ 3,363,842			3,837,119	913,727	8,114,688
Due from other funds (Note 8)	1,513,717	652,472	66,109		881,400	981	3,114,679
Restricted cash:							
Cash and cash equivalents (Notes 1 and 4)	23,097,817	172,173			3,282,654	565,656	27,118,300
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	8,219,825			9,019,917		29,697	17,269,438
<b>TOTAL</b>	<u>\$ 44,351,214</u>	<u>\$ 4,188,487</u>	<u>\$ 998,513</u>	<u>\$ 9,447,950</u>	<u>\$ 8,070,629</u>	<u>\$ 2,106,157</u>	<u>\$ 69,162,950</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUE)  
 JUNE 30, 2008

	<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 12)	\$ 20,448,188	\$ 669,601	\$ 873,006		\$ 851,432	\$ 891,752	\$ 23,733,979
Checks drawn in excess of bank balance			66,473				66,473
Due to other agencies (Note 13)	9,757,617				911,994		10,669,611
Due to other funds (Note 8)	1,986,358	103,838			576,141	448,338	3,114,675
General obligations:							
Bonds				\$ 4,720,000			4,720,000
Accrued interest				2,376,090			2,376,090
Deferred revenues (Note 15):							
Municipal license tax	16,101,848						16,101,848
Other	9,838						9,838
Federal government		3,043,825			739,295	254,133	4,037,253
Total liabilities	<u>48,303,849</u>	<u>3,817,264</u>	<u>939,479</u>	<u>7,096,090</u>	<u>3,078,862</u>	<u>1,594,223</u>	<u>64,829,767</u>
<b>FUND (DEFICIENCY) BALANCE:</b>							
Reserved for:							
Encumbrances (Note 2)	10,887,610		181,378			1,216,382	12,285,370
Federal grants		371,223	(122,344)		4,991,767		5,240,646
Debt service				2,351,860			2,351,860
Special purposes	7,726,424						7,726,424
Capital projects	9,422,868						9,422,868
Unreserved fund balance	<u>(31,989,537)</u>					<u>(704,448)</u>	<u>(32,693,985)</u>
Total fund (deficiency) balance	<u>(3,952,635)</u>	<u>371,223</u>	<u>59,034</u>	<u>2,351,860</u>	<u>4,991,767</u>	<u>511,934</u>	<u>4,333,183</u>
<b>TOTAL</b>	<u>\$ 44,351,214</u>	<u>\$ 4,188,487</u>	<u>\$ 998,513</u>	<u>\$ 9,447,950</u>	<u>\$ 8,070,629</u>	<u>\$ 2,106,157</u>	<u>\$ 69,162,950</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, 2008**

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**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS** \$ 4,333,183

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 308,806,124
  
- Some liabilities including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3) (218,857,545)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 94,281,762

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<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 tax (Note 5)	\$ 31,955,461			\$ 8,782,044			\$ 40,737,505
Municipal license tax (Note 6)	19,702,075						19,702,075
Sales tax (Note 7)	15,526,051						15,526,051
Royalties and others	2,602,497						2,602,497
Licenses, permits and other local tax	9,854,304						9,854,304
Charges for services and rents	910,180				\$ 11,582		921,762
Fines and forfeitures	456,890						456,890
Interest	3,432,415			180,064	135,765		3,748,244
Intergovernmental revenues (Note 14):							
Federal grants and contributions	24,674	\$ 14,353,831	\$ 4,230,874		17,122,499	\$ 2,540,846	38,272,724
State contributions	22,070,414						22,070,414
Other	9,552,832				30,777	68,089	9,651,698
Total revenues	<u>116,087,793</u>	<u>14,353,831</u>	<u>4,230,874</u>	<u>8,962,108</u>	<u>17,300,623</u>	<u>2,608,935</u>	<u>163,544,164</u>
<b>EXPENDITURES:</b>							
<b>Current:</b>							
General government	56,063,870						56,063,870
Public safety	14,160,716					2,057,611	16,218,327
Public works	22,121,262						22,121,262
Culture and recreation	7,295,756						7,295,756
Health and welfare	9,701,634	1,722,206			12,634,264	1,135,222	25,193,326
Urban development					3,668,178	83,497	3,751,675
Legal services	971,169						971,169
Education		12,171,060					12,171,060
Training and employment			5,476,250				5,476,250
Capital outlays:							
Special communities	3,837,808						3,837,808
Projects	36,991,073						36,991,073
Debt service:							
Principal	700,000			4,720,000	920,000		6,340,000
Interest	1,150,428			5,096,265	310,029		6,556,722
Total expenditures	<u>152,993,716</u>	<u>13,893,266</u>	<u>5,476,250</u>	<u>9,816,265</u>	<u>17,532,471</u>	<u>3,276,330</u>	<u>202,988,298</u>
Excess (deficiency) of revenues over expenditures	<u>(36,905,923)</u>	<u>460,565</u>	<u>(1,245,376)</u>	<u>(854,157)</u>	<u>(231,848)</u>	<u>(667,395)</u>	<u>(39,444,134)</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 (CONTINUE)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES):							
Transfers in	22,452,171						22,452,171
Transfers out	<u>(22,108,150)</u>			<u>(300,821)</u>		<u>(43,200)</u>	<u>(22,452,171)</u>
Total other financing sources (uses)	<u>344,021</u>			<u>(300,821)</u>		<u>(43,200)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing sources	<u>(36,561,902)</u>	<u>460,565</u>	<u>(1,245,376)</u>	<u>(1,154,978)</u>	<u>(231,848)</u>	<u>(710,595)</u>	<u>(39,444,134)</u>
FUND BALANCE, July 1, 2007, As previously reported	32,890,782	34,778	1,794,864	3,506,838	5,011,915	1,364,049	44,603,226
PRIOR PERIOD ADJUSTMENTS (Note 23)	<u>(281,515)</u>	<u>(124,120)</u>	<u>(490,454)</u>		<u>211,700</u>	<u>(141,520)</u>	<u>(825,909)</u>
FUND BALANCE, July 1, 2007, As restated	<u>32,609,267</u>	<u>(89,342)</u>	<u>1,304,410</u>	<u>3,506,838</u>	<u>5,223,615</u>	<u>1,222,529</u>	<u>43,777,317</u>
FUND BALANCE, June 30, 2008	<u>\$ (3,952,635)</u>	<u>\$ 371,223</u>	<u>\$ 59,034</u>	<u>\$ 2,351,860</u>	<u>\$ 4,991,767</u>	<u>\$ 511,934</u>	<u>\$ 4,333,183</u>

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, 2008**

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**NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS** \$ (39,444,134)

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. 42,106,261
- Loss on disposition of capital assets reported in the statement of activities, but do not require including as current expenditures.
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the source of current financial resources. (5,924,229)
- 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 (3,501,091)
  - Increase in legal claims and judgments (6,567,936)
  - Increase in compensated absences (4,825,649)
  - Decrease in LIMS refinancing debt, and interest due for accounts sold 373,740
  - Increase in interest due to CRIM 334,970
- 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. 6,340,000

**CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (11,108,068)

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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 31,955,461	\$ 31,955,461	\$ 31,955,461	\$ -
Municipal license tax	21,633,721	21,633,721	19,709,110	(1,924,611)
Sales tax	14,708,567	14,708,567	12,326,066	(2,382,501)
Royalties and other	2,481,000	2,481,000	2,575,699	94,699
Licenses, permits and other				
local taxes	10,060,694	10,060,694	9,008,098	(1,052,596)
Charges for services and rents	1,368,974	1,368,974	2,583,513	1,214,539
Fines and forfeitures	300,000	300,000	456,890	156,890
Interest	2,000,000	2,000,000	1,922,222	(77,778)
Intergovernmental revenues -				
federal grant and contribution	150,000	150,000	326,852	176,852
State contributions	13,580,353	13,771,321	14,148,883	377,562
Other revenues	<u>1,900,000</u>	<u>5,400,000</u>	<u>1,056,134</u>	<u>(4,343,866)</u>
Total revenues	<u>100,138,770</u>	<u>103,829,738</u>	<u>96,068,928</u>	<u>(7,760,810)</u>
<b>EXPENDITURES:</b>				
General government	47,130,127	48,065,317	48,912,546	(847,229)
Public safety	11,645,958	12,655,633	13,753,931	(1,098,298)
Public works	21,193,094	23,093,094	23,003,415	89,679
Culture and recreation	7,113,112	7,420,164	7,286,756	133,408
Health and welfare	9,701,634	9,701,634	9,701,634	-
Legal services	1,504,418	1,043,469	971,169	72,300
Debt service:				
Principal	700,000	700,000	700,000	-
Interest	<u>1,150,427</u>	<u>1,150,427</u>	<u>1,150,427</u>	<u>-</u>
Total expenditures	<u>100,138,770</u>	<u>103,829,738</u>	<u>105,479,878</u>	<u>(1,650,140)</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>				
	\$ -	\$ -	\$ (9,410,950)	\$ (9,410,950)

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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 9,471,768	\$ 9,471,768	\$ 8,354,010	\$ (1,117,758)
Interest	-	-	180,064	180,064
Total revenues	<u>9,471,768</u>	<u>9,471,768</u>	<u>8,534,074</u>	<u>(937,694)</u>
EXPENDITURES:				
Debt service:				
Principal	3,674,266	3,674,266	4,720,000	1,045,734
Interest	<u>5,797,502</u>	<u>5,797,502</u>	<u>5,096,265</u>	<u>(701,237)</u>
Total expenditures	<u>9,471,768</u>	<u>9,471,768</u>	<u>9,816,265</u>	<u>344,497</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ (1,282,191)	\$ (1,282,191)

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, 2008

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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 include 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 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).
- **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 Vigia 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).

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

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, Continue

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 60 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 20 and 23.

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, Continue

### 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.

## I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

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, 2008.

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, 2008, **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, Continue

- 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.
- Musco 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, 2008 amounted to approximately \$2.36 millions. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.83 millions for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

## I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continue

### 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 the following Acts: no. 207 of August 13, 1995, no. 40 of June 13, 2001 and 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, 2008, post employment benefits for 553 retirees amounted to \$289,583. 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, Continue

### Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following statements that have effective dates after June 30, 2008:

Statement Number	Statement Name	Adoption Required in Fiscal Year
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2008-09
51	Accounting and Reporting for Intangible Assets	2009-10
52	Land and Other Real Estate Held as Investments by Endowment	2008-09
53	Accounting and Financial Reporting for Derivative Investments	2009-10

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, 2008, this commitment amounted to approximately \$2,685,360.

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, 2008 representing the original budget and the amended budget.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY. Continue

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 of expenditures over revenues for the year ended June 30, 2008 is presented below for the general fund:

	<b>General Fund</b>
Excess of revenues over expenditures - budget basis	\$ <u>(9,410,950)</u>
Entity differences:	
Non-budgeted revenues	21,057,431
Non-budgeted expenses	(47,258,366)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(2,181,147)
Current year encumbrances recorded as expenditures for budget purposes	<u>1,587,947</u>
Basis of accounting differences - net change	<u>(26,794,135)</u>
Excess of expenditures over revenues - GAAP basis	\$ <u><u>(36,205,085)</u></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 \$219 millions differences are as follows:

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

General and special obligations	\$ 115,672,000
Property tax advances	71,362,193
Loan guarantee notes	4,785,000
Claims and judgments	6,797,936
Compensated absences	15,985,836
LMS refinancing debts	1,629,090
Interest due for accounts sold - CRIM	<u>2,625,553</u>
	\$ <u>218,857,608</u>

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

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

Total capital assets, net of accumulated depreciation	<u>\$ 308,806,124</u>
Deduct:	
Bonds payable:	
Ordinance (1996-97 Series)	3,395,000
Ordinance (1998-99 Series)	1,385,000
Ordinance (2000-01 Series)	27,145,000
Ordinance (2003-04 Series)	47,180,000
Ordinance (2004-05 Series)	10,361,000
Ordinance (2006-07 Series)	9,240,000
Section 108 Loan Guarantee	<u>4,785,000</u>
	<u>103,491,000</u>
Invested in capital assets, net of related debt	<u>\$ 205,315,124</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.

Custodial credit risk is the risk that in the event of bank failure, **the Municipality's** deposit may not be recovered. At year-end, **the Municipality's** has balances deposited in commercial banks amounting to \$49 million which are insured by the FDIC, generally up to a maximum of \$100,000. Also those public funds deposited in commercial banks are covered by the 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. On January 30, 2009 (Ordinance No. 99 2008-2009 Series) the Mayor increased the rates from 8.33% to 9.33% for real property and from 6.33% to 7.33% 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	2.50%	2.50%
Discounts made by state to taxpayer	( .20%)	( .20%)
	<u>9.33%</u>	<u>7.33%</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, 2008, presented as non current liabilities in the government-wide financial statements amounted to approximately \$71.4 millions of which \$3,501,184 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2008. See information regarding property tax claim made by **the Municipality** to CRIM in Note 16.

## 5. PROPERTY TAXES, Continue

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, 2008. 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. SALES TAX

During the fiscal year ended June 30, 2006, the Municipal Legislature approved the Ordinance no. 76, series 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. On August 16, 2006, the Municipal Legislature approved the Ordinance no. 12, series 2006-07 increasing the citizenship contribution to 1.5% effective November 15, 2006. Pursuant to the provisions of the Law number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

## 8. INTERFUND TRANSACTIONS

Interfund transactions, which are expected to be repaid on or before June 30, 2010, are as follows:

	<u>Amount</u>	<u>Purpose</u>
General fund:		
Section – Voucher	\$ 1,008	Reimbursable expenditures
FEMA – George	148	Reimbursable expenditures
Ryan White	53,894	Reimbursable expenditures
Homeland	16,174	Reimbursable expenditures
Emergency Shelter	2,483	Reimbursable expenditures
Bullet Proof Vest Partnership	62,319	Reimbursable expenditures
CDBG	214,057	Reimbursable expenditures
FEMA Mitigation	183,250	Reimbursable expenditures
Other	<u>980,384</u>	Reimbursable expenditures
Total general fund	<u>1,513,717</u>	
HUD grants:		
Section 8 - Voucher	859,292	Reimbursable expenditures
CDBG	631	Reimbursable expenditures
UDAG	20,277	Reimbursable expenditures
Other	<u>1,200</u>	Reimbursable expenditures
Total HUD grants	<u>881,400</u>	
HHS grants:		
Head Start	651,891	Reimbursable expenditures
Ryan White	526	Reimbursable expenditures
Child Care	<u>55</u>	Reimbursable expenditures
Total HHS grants	<u>652,472</u>	
Other		
Municipal bank	856	Reimbursable expenditures
Homeland	110	Reimbursable expenditures
Other	<u>15</u>	Reimbursable expenditures
Total other	<u>981</u>	
WIA	<u>66,109</u>	Reimbursable expenditures
Total advances between funds	<u>\$ 3,114,679</u>	

Interfund transfers between the general fund and debt service fund of approximately \$301,000 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 \$302,000 represent indirect cost recovery. Interfund transfers from Others to General fund of approximately \$749,000 represent operational transfer.

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

Accounts receivable as of June 30, 2008, consist of the following:

	<b>Gross Amount</b>	<b>Allowance</b>	<b>Net Amount</b>
Municipal license tax	\$ <u>352,991</u>	\$ <u>19,393</u>	\$ <u>333,598</u>
Sales tax	\$ <u>1,059,489</u>	\$ <u>102,374</u>	\$ <u>957,215</u>

**10. DUE FROM GOVERNMENT**

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

Local governments:

Governmental Development Bank	\$ 428,033
Corp. Desarrollo Ocupacional de Puerto Rico	932,404
Rural Development Corp.	2,198,769
Department of Education	130,450
Government Development Bank	14,062
Departamento de Recursos Naturales	1,070,029
Other	<u>37,438</u>
Total due from local government	<u>\$ 4,811,185</u>

Federal governments:

Other - FEMA	\$ 257,214
Other funds - Homeland Security	202,098
Other funds - USDA	1,665
Other funds - Adquisicion de Viviendas	183,250
Other - Traffic Enforcement	28,995
Other funds - Bulletproof Best Partnership	5,031
Other - Community Program	2,343
Other funds - Homeland Security II	167,735
Other funds - Corps Int Community Grant	65,396
HHS Funds - Ryan White	283,803
HHS - Head Start	3,080,039
HUD - CDBG	3,020,234
HUD - HOME	739,279
HUD - UDAG	61,074
HUD - Emergency Shelter	<u>16,532</u>
Total due from federal government	<u>\$ 8,114,688</u>

## 11. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

Primary Government Governmental Activities	Balance June 30, 2007	Increase	Decrease	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 47,465,561	438,207		\$ 47,903,768
Construction in progress	<u>26,334,157</u>	<u>\$ 33,051,403</u>	<u>\$ 32,342,420</u>	<u>27,043,140</u>
Total capital assets, not being depreciated	<u>73,799,718</u>	<u>33,489,610</u>	<u>32,342,420</u>	<u>74,946,908</u>
Capital assets, being depreciated:				
Buildings and building improvements	68,815,390	14,301,219		83,116,609
Land improvements	31,003,411	17,708,177		48,711,588
Machinery and equipment	41,525,868	2,803,488	5,999	44,323,357
Infrastructure	<u>115,298,692</u>	<u>5,088,309</u>		<u>120,387,001</u>
Total capital assets, being depreciated	<u>256,643,361</u>	<u>39,901,193</u>	<u>5,999</u>	<u>296,538,555</u>
Less accumulated depreciation for:				
Buildings and building improvements	9,153,109	1,251,313		10,404,422
Land improvements	631,800	718,402		1,350,202
Machinery and equipment	24,747,788	2,047,268	687	26,794,369
Infrastructure	<u>22,223,099</u>	<u>1,907,247</u>		<u>24,130,346</u>
Total accumulated depreciation	<u>56,755,796</u>	<u>5,924,230</u>	<u>687</u>	<u>62,679,339</u>
Total capital assets, being depreciated, net	<u>199,887,565</u>	<u>33,976,963</u>	<u>5,312</u>	<u>233,859,216</u>
Governmental activities capital assets, net	<u>\$ 273,687,283</u>	<u>\$ 67,466,573</u>	<u>\$ 32,347,732</u>	<u>\$ 308,806,124</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 Pachín Vicéns and the Paquito Montaner Stadium to **the Municipality**. The facilities were transferred in October 5, 2005 at its fair market value. The Ordinance No. 10 (2005-06) authorized the Mayor to realize this process.

## 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008 were as follows:

Funds	Vendors	Salaries and Benefits	Total
General fund	\$ 20,448,188	\$ -	\$ 20,448,188
HHS program	424,187	245,414	669,601
WIA program	162,874	710,132	873,006
HUD program	807,289	44,143	851,432
Other governmental funds	<u>891,752</u>	<u>-</u>	<u>891,752</u>
Total on balance sheet	<u>\$ 22,734,290</u>	<u>\$ 999,689</u>	<u>23,733,979</u>
Plus obligation paid with CAE funds			<u>4,720,000</u>
Total on statement of net assets			<u>\$ 28,453,979</u>

### 13. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2008 was as follows:

ASUME	\$ 5,004
Internal revenue service	29,701
Retirement System of the Commonwealth of Puerto Rico	1,418,091
Puerto Rico Electric Power Authority	2,213,587
Puerto Rico Public Building Authority	2,520,128
CRIM	1,918,812
Puerto Rico Water and Sewer Authority	934,576
Corporación Fondo del Seguro del Estado	64,541
US Housing and Urban Development	864,332
US Department of Health and Human Services	<u>700,838</u>
Total	<u>\$ 10,669,610</u>

### 14. INTERGOVERNMENTAL REVENUES

Following is a detail of intergovernmental revenues:

#### Federal agencies:

U.S. Department of Housing Urban Development - Home Devolution	\$ 317,223
U.S. Health and Human - Ryan White	1,727,634
U.S. Health and Human - Head Start	12,626,197
U.S. Department of Labor - Workforce Investment Act	4,230,874
U.S. Dept. of Housing Urban Development - Emergency Shelter	248,411
U.S. Dept. of Housing Urban Development - CDBG-Entitlement	4,620,561
U.S. Dept. of Housing Urban Development - Section 8 Choice Voucher	9,004,484
U.S. Dept. of Housing Urban Development - Section 8 - Moderate I and II	239,447
U.S. Dept. of Housing Urban Development - HOME Investment Partnership	2,679,706
U.S. FEMA	288,821
U.S. Department of Agriculture - USDA	951,972
U.S. Department of Housing Urban Development (UDAG)	12,666
U.S. Department of Justice - Cops Interoperability Community Grant	178,318
U.S. Department of Justice - Homeland Security	702,347
U.S. Department of Urban Development Municipal Bank (CDBG loans)	357,081
Others	<u>86,982</u>
Total federal agencies	<u>\$ 38,272,724</u>

#### State agencies:

Communities Rehabilitations Projects - Special Communities Trust	\$ 2,199,282
Puerto Rico Department of Natural Resources	5,467,435
Puerto Rico Electric Power Authority	10,052,443
Subsidy and Lottery of Puerto Rico - CRIM	2,779,417
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditure	1,288,034
Planning Board of Puerto Rico	39,600
Rural Development Projects	215,208
Others	<u>28,995</u>
Total state agencies	<u>\$ 22,070,414</u>

## 15. DEFERRED REVENUES

### Municipal license tax

The deferred revenues of approximately \$16.1 millions in the general fund related to municipal license tax collected in fiscal year 2007-08 that will be earned in fiscal year 2008-09.

### 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

USDA	\$	234,788
Section 8		36,932
CDBG		16,569
Head Start		3,043,825
Home Investment Partnership Recaptures		593,294
Home Devolution		10,616
UDAG		81,884
Municipal bank		4,382
Other grants		<u>14,962</u>
Total	\$	<u>4,037,252</u>

## 16. LONG-TERM DEBT

Bonds outstanding as of June 30, 2008 consist of:

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%	\$ 3,395,000
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 %	1,385,000
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%	27,145,000
2004 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 7.00%	9,240,000
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%	9,515,000
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%	11,800,000
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%	10,405,000
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 6.00%	13,820,000
2004 special obligation bond due in annual installments of \$85,000 to \$335,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%	4,050,000
2004 special obligation bond due in annual installments of \$150,000 to \$575,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%	7,160,000
2006 general obligation bond due in annual installments of \$204,000 to \$963,000, through July 1, 2028; with interest ranging from 5.57% to 6.50%	10,361,000
2006 general obligation bond due in annual installments of \$146,000 to \$948,000, through July 1, 2028; with interest ranging from 5.57% to 6.50%	<u>7,396,000</u>
Total outstanding bonds	<u>\$ 115,672,000</u>

16. LONG-TERM DEBT, Continue

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

	<b>Principal</b>	<b>Interest</b>
2008 - 2009	\$ 5,810,000	\$ 6,631,022
2009 - 2010	6,262,000	6,239,410
2010 - 2011	6,709,000	5,887,331
2011 - 2012	5,864,000	5,504,635
2012 - 2017	28,553,000	22,353,152
2017 - 2022	33,068,000	13,995,183
2022 - 2027	23,777,000	5,146,848
2027 - 2028	<u>5,629,000</u>	<u>568,818</u>
	<u>\$ 115,672,000</u>	<u>\$ 66,326,399</u>

Loan guarantee assistance notes (LGA)

These notes are payable in annual aggregate principal installments of \$540,000 to \$940,000, 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 as of June 30, 2008 is \$8,630,000.

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

	<b>Principal</b>	<b>Interest</b>
2008 - 2009	\$ 1,480,000	\$ 423,003
2009 - 2010	1,080,000	349,945
2010 - 2011	1,085,000	300,697
2011 - 2012	1,090,000	248,801
2012 - 2017	2,765,000	358,374
2017 - 2022	550,000	47,884
2022 - 2027	<u>580,000</u>	<u>          </u>
	<u>\$ 8,630,000</u>	<u>\$ 1,728,704</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, 2008 amounted to approximately \$1.1 billions. Long-term debt, except for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

## 16. LONG-TERM DEBT, Continuc

Long-term debt activities for the year ended June 30, 2008 was as follows:

Primary Government Governmental Activities	Balance at June 30, 2007	Payment Principal	Interest	Increase (Decrease)	Balance at June 30, 2008	Due within One Year
General obligation bonds	\$ 76,892,000	\$ 4,150,000	\$ 4,519,691	\$	\$ 72,742,000	\$ 4,150,000
General refunding obligation bonds	9,770,000	255,000	514,109		9,515,000	255,000
Special refunding obligations bonds	22,920,000	715,000	1,173,531		22,205,000	715,000
Special obligation bonds	11,510,000	300,000	614,648		11,210,000	300,000
Loan guarantee assistance (LGA) notes	5,705,000	920,000	310,028		4,785,000	920,000
Subtotal	126,797,000	6,340,000	7,132,007		120,457,000	6,340,000
Property tax advance - CRIM	67,861,009			3,501,091	71,362,100	896,331
LIMS Refinancing debt - CRIM	2,002,830	373,740	134,662		1,629,090	508,402
Interest due for accounts sold - CRIM	2,960,523	334,970			2,625,553	334,970
Claims and judgment	230,000			6,567,936	6,797,936	
Compensated absences	12,323,408	1,063,220		4,725,648	15,985,836	5,366,845
Subtotal	85,377,770	1,771,930	134,662	14,794,675	98,400,515	7,106,548
Total long-term debt	\$ 212,174,770	\$ 8,111,930	\$ 7,266,669	\$ 14,794,675	\$ 218,857,515	\$ 13,446,548

## 17. 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.

## 17. RETIREMENT PLAN, Continue

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 upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

### Contribution requirements

Commonwealth legislation requires employees to contribute, under a coordination plan, 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and under a supplementation plan, only available to Police, Firefighters and Mayors, 8.275% of gross salary. **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, 2008 was approximately \$2.8 millions. **The Municipality** total payroll for all employees was approximately \$58.03 millions. For the two preceding fiscal years, **the Municipality** contributed approximately \$3.8 millions for each year, 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.

**18. 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.

**19. COMMITMENTS**

Primary Government

Operating lease

**The Municipality** leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the basic financial statements for the year ended June 30, 2008, amounted to approximately \$1.3 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, 2008 of approximately \$33.6 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, 2008 are as follows:

Fiscal year ending June 30, 2008	
2009	\$ 949,209
2010	949,209
2011	949,209
2012	949,209
2013	<u>949,209</u>
Total	<u>\$ 4,746,045</u>

**20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER**

Contingencies and claims and judgments against **the Municipality**

**The Municipality** is a defendant in a number of lawsuits arising principally from claims against **the Municipality** for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the probable claims against **the Municipality** not covered by insurance are by the amount of \$6.73 millions at June 30, 2008. In addition, in the management's opinion, based on the advice of the legal counsel, the possible claims against **the Municipality** not covered by insurance are estimated in the amount of \$6.8 millions as of June 30, 2008 and will not affect the financial condition of **the Municipality**.

## 20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER, Continue

**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 OMB Circular A-133" for the years ended June 30, 2005, 2006 and 2007 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 \$6.6 millions related to this case.

## 21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS

**The Municipality** owns a landfill, which is used by several municipalities including Ponce and administered by BFI Industries, the landfill administrator, an independent private entity, under an agreement with **the Municipality**. **The Municipality** is entitled, under the agreement with the administrator, to certain revenues, principally royalties, resulting from the use of the landfill. For the year ended June 30, 2008, revenues earned under the agreement amounted to \$2.6 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, 2008, the estimated remaining life was approximately 6.5 years.

## 21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS, Continue

**The Municipality** has formalized an agreement with BFI of Ponce Inc. for the gather, transportation and disposal of municipal waste for the 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.

## 22. SUBSEQUENT EVENTS

During the year ended June 30, 2008, **the Municipality of Ponce** issues \$26,100,000 of Municipal Special Obligation Bonds (Resolution No. 345 (2007-2008) June 10, 2008) for the construction and betterments in various projects, and for the purchases of various properties. However, the proceeds of this bonds issuance were disbursed in July 2008. The payments source for the interest and principal is the Municipal Sales tax redemption fund.

## 23. RESTATEMENT OF 2007 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2008, **the Municipality** noted that certain debt between funds had been overstated or understated as of June 30, 2007 and accordingly, the net assets at June 30, 2007, as previously reported, has been decreased by \$825,909. A summary of the effects of the restatements in the fiscal year 2007-08 financial statements is as follows:

**23. RESTATEMENT OF 2007 FINANCIAL STATEMENTS, Continue**

	<u>General</u>	<u>HHS</u>	<u>WIA</u>	<u>HUD</u>	<u>Others</u>	<u>Total</u>
Corrections in accounting transactions	\$ <u>(281,515)</u>	\$ <u>(124,120)</u>	\$ <u>(490,454)</u>	\$ <u>211,700</u>	\$ <u>(141,520)</u>	\$ <u>(825,909)</u>
Net effect in fund balance (decrease) increase	\$ <u>(281,515)</u>	\$ <u>(124,120)</u>	\$ <u>(490,454)</u>	\$ <u>211,700</u>	\$ <u>(141,520)</u>	\$ <u>(825,909)</u>

**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, 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, 2008, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated May 14, 2009. 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 as a basis for designing our auditing procedures for the purposes of expressing our opinions on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the **Municipality's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the **Municipality's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Municipality's** financial statements that is more than inconsequential will not be prevented or detected by the **Municipality's** internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-02 (FS) and 2008-03 (FS) to be significant deficiencies in internal control over financing reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Municipality's** internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-01 (FS), 2008-02 (FS), 2008-03 (FS), and 2008-05 (FS), to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether **the Municipality's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our 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 2008-01 (FS), 2008-02 (FS), 2008-03 (FS) and 2008-04 (FS).

**The Municipality's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **the Municipality's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Municipal Legislative Body, others within the entity, and 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.

May 14, 2009

A handwritten signature in black ink, appearing to read "W. J. CPA Group", is written over the signature line.

License number 200  
Ponce, Puerto Rico

Stamp number 2433590 was  
affixed to the original report.

**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, 2008. **The Municipality's** major federal programs are identified in the summary of auditors' 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; 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 2008-01 (FA) thru 2008-44 (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, Davis Bacon Act, eligibility, equipment and real property management, matching and earmarking, period of availability of federal funds, procurement and suspension and debarment, reporting, sub recipient monitoring, and special test and provisions that are applicable to its major federal 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), and 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, **the Municipality** 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, 2008.

#### 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **the Municipality's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items: 2008-01 (FA), 2008-02 (FA), 2008-03 (FA), 2008-04 (FA), 2008-05 (FA), 2008-06 (FA), 2008-07 (FA), 2008-08 (FA), 2008-09 (FA), 2008-10 (FA), 2008-11 (FA), 2008-12 (FA), 2008-13 (FA), 2008-14 (FA), 2008-15 (FA), 2008-16 (FA), 2008-17 (FA), 2008-18 (FA), 2008-19 (FA), 2008-20 (FA), 2008-21 (FA), 2008-22 (FA), 2008-23 (FA), 2008-24 (FA), 2008-25 (FA), 2008-26 (FA), 2008-27 (FA), 2008-28 (FA), 2008-29 (FA), 2008-30 (FA), 2008-31 (FA), 2008-32 (FA), 2008-33 (FA), 2008-34 (FA), 2008-35 (FA), 2008-36 (FA), 2008-37 (FA), 2008-38 (FA), 2008-39 (FA), 2008-40 (FA), 2008-41 (FA), 2008-42 (FA), 2008-43 (FA), and 2008-44 (FA) to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost, we consider items 2008-01 (FA), 2008-02 (FA), 2008-03 (FA), 2008-04 (FA), 2008-05 (FA), 2008-06 (FA), 2008-07 (FA), 2008-08 (FA), 2008-09 (FA), 2008-10 (FA), 2008-11 (FA), 2008-12 (FA), 2008-13 (FA), 2008-14 (FA), 2008-15 (FA), 2008-16 (FA), 2008-17 (FA), 2008-20 (FA), 2008-21 (FA), 2008-23 (FA), 2008-24 (FA), 2008-25 (FA), 2008-26 (FA), 2008-27 (FA), 2008-28 (FA), 2008-29 (FA), 2008-30 (FA), 2008-31 (FA), 2008-34 (FA), 2008-35 (FA), 2008-36 (FA), 2008-37 (FA), 2008-38 (FA), 2008-40 (FA), 2008-41 (FA), 2008-42 (FA), 2008-43 (FA), and 2008-44 (FA) to be material weaknesses.

**The Municipality's** responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **the Municipality's** response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Municipal Legislative Body, 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.

May 14, 2009

License number 200  
Ponce, Puerto Rico

Stamp number 2433591 was  
affixed to the original report.

A handwritten signature in black ink, appearing to read "Rafael A. Garcia". The signature is written in a cursive style with a long, sweeping underline that extends to the left.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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	\$ 951,972
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
<u>Direct programs:</u>			
Community Development Block Grant (CDBG) Program, Entitlement Grants	14.218		4,637,129
Emergency Shelter Grants Program	14.231		248,411
HOME Investment Partnerships Program	14.239		3,035,329
Section 8 Housing Choice Voucher	14.871		9,350,681
Section 8 – Project – Based Cluster:			
Lower Income Housing Assistance Programs:			
Section 8 – Moderate Rehabilitation I	14.856		20,981
Section 8 – Moderate Rehabilitation II	14.856		<u>227,273</u>
Total U.S. Department of Housing and Urban Development			<u>17,519,804</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		2,296,750
Youth Activities	17.259		1,696,296
Dislocated Workers	17.260		<u>1,483,204</u>
Total U.S. Department of Labor			<u>5,476,250</u>

See notes to schedule of expenditures of federal awards.

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

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS, CONTINUE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Federal Grantor/Program Title	Federal CDEA 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		\$ 12,171,060
HIV Emergency Relief Project Grants	93.914		<u>1,722,206</u>
Total U.S. Department of Health and Human Services			<u>13,893,266</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Police Enforcement:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		28,995
State and Community Highway Safety	20.600		<u>2,343</u>
Total U.S. Department of Transportation			<u>31,338</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		534,589
Citizen Corps Program (CERT)	97.053		2,025
Corps Int. Comm. Grant 2005	97.055	2000-LB-PMP	178,318
Homeland Security Int. Commercial Equipment	97.055		<u>167,735</u>
Total U.S. Department of Homeland Security			<u>882,667</u>
<b>TOTAL</b>			<u>\$ 38,755,297</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, 2008**

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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	
Federal expenditures per basic financial statements included herein:	<u>\$ 38,755,297</u>
Housing and Urban Development Grants	\$ 17,519,804
Health and Human Services Grants	13,893,266
Workforce Investment Act Grants	5,476,250
Others	<u>1,865,977</u>
Total	<u>\$ 38,755,297</u>

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

During the fiscal year ended June 30, 2008, **the Municipality** provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 1,440,796
Community Development Block Grant (CDBG) - Program Entitlement Grants (14.218)	743,324
Emergency Shelter Grants Program (14.231)	<u>168,288</u>
Total	<u>\$ 2,352,408</u>

**4. SECTION 108 LOAN PAYMENTS**

For the fiscal year ended June 30, 2008, **the Municipality** paid the amount of \$1,230,028 in principal and interest as a repayment of Section 108 Loan Guarantee Assistance Notes.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED YEAR JUNE 30, 2008**

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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.
- 2) There were reportable conditions on internal controls over financial reporting.
- 3) Instances of material noncompliance with the financial statements of **the Municipality of Ponce** were disclosed during the audit.
- 4) There were reportable conditions on internal controls over major programs.
- 5) The independent auditors' report on compliance with requirements applicable to major federal award programs for **the Municipality** expressed a qualified opinion.
- 6) The audit disclosed findings required to be reported by OMB Circular A-133.
- 7) **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
  6. Workforce Investment Act Cluster:
    - Adult Program CFDA No. 17.258
    - Youth Activities CFDA No. 17.259
    - Dislocated Workers CFDA No. 17.260
- 8) A threshold of \$1,056,931 was used to distinguish between Types A and B programs as those terms are defined in OMB Circular A-133.
- 9) **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 2008-01 (FS) - Operating deficit of general fund

### Condition

**The Municipality's** system of internal control relating to the budgeting function does not provide adequate financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund) as required by Law.

### 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, among other things, 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

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

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 2008-02 (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.

### 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.

Finding number 2008-02 (FS) – Accounting management system (MW), Continue

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 2008-03 (FS) – Municipal license tax revenues (MW)

Condition

Municipal license tax revenues of the fiscal year 2008-2009, which were collected in advance from taxpayers between January 1 and June 30, 2008 (known in Spanish as “Patente en Suspensio”), were used by **The Municipality** to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2008. Those unearned revenues collected in advance pertain to the general fund’s operating budget of the fiscal year 2008-2009, could not be used to pay obligations of the fiscal year 2007-2008 and was not authorized by a municipal ordinance or resolution.

Criteria

Article 8.004(b) of Law No. 81 of August 30, 1991, known as the *Autonomous Municipalities Act of Puerto Rico* (Law No. 81) states that **The Municipality** cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, **The Municipality** cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year’s budgeted resources.

Cause

The foregoing condition is primarily due to the facts that **The Municipality** does not prepare cash flows forecasts and projections to anticipate any cash flows shortage. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.

Effect

This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities

Finding number 2008-03 (FS) Municipal license tax revenues, Continue

Recommendation

We recommend **The Municipality** to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.

We also recommend that annual budgets must be developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared. This process must ensure that the operational budget of the general fund is adjusted for uncollected budgeted revenues.

Finding number 2008-04 (FS) – Head Start Program

Condition

In letter dated December 13, 2007, the U.S. Department of Health and Human Services request the return of approximately \$657,000 to **The Municipality** for disallowable costs incurred. As of the report date, this amount has increased to approximately \$780,000. According to the federal agency, the funds must be from non-federal sources.

Criteria

45 CFR Part 92, Subpart C, Section 92.20 (b) (1), (2), (3), The financial management systems of other grantees and subgrantees must meet the following standards: (1) *Financial reporting*. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) *Accounting records*. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) *Internal control*. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

45 CFR Part 92, Subpart D, Section 92.51 (a), (b), The closeout of a grant does not affect: The Federal agency's right to disallow costs and recover funds on the basis of a later audit or other review; The grantee's obligation to return any funds due as a result of later refunds, corrections, or other transactions.

45 CFR Part 92, Subpart D, Section 92.52, (a) Any funds paid to a grantee in excess of the amount to which the grantee is finally determined to be entitled under the terms of the award constitute a debt to the Federal Government. If not paid within a reasonable period after demand, the Federal agency may reduce the debt by: (1) Making an administrative offset against other requests for reimbursements, (2) Withholding advance payments otherwise due to the grantee, or (3) Other action permitted by law. (b) Except where otherwise provided by statutes or regulations, the Federal agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (4 CFR Ch. II). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

Cause

These conditions occurred because of the lack of adequate internal controls and procedures designed to ascertain compliance with the required and an effective supervision over the federal funds received.

Finding number 2008-04 (FS) – Head Start Program, Continue

Effect

The continued occurrence of this situation will result in future instances of noncompliance with the aforementioned federal requirements. This situation will harm **The Municipality** fiscal condition and the services rendered to their citizens. By still delaying to repay **The Municipality** may in occur in additional expenses due to an increase an interest and or penalties affecting therefore affecting the services render to the citizen. The agency may submit this claim to the U.S. Department of Justice and **The Municipality** can lose their federal funding in upcoming years.

Recommendation

We strongly recommend that **The Municipality** return the funds as soon as possible to avoid future interest costs or other reprimand. We also recommend that **The Municipality** should adopt the necessary internal controls and procedures to ascertain that it is in compliance with these federal requirements, including adopting the necessary procedures to ensure the payment to this federal financially assisted program.

### **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)**

#### **REQUIREMENT – COMPLIANCE AND INTERNAL CONTROL**

Finding Number 2008-01 (FA) - Allowable Costs/Cost Principles (B) (MW)

##### Condition

We have performed audit procedures to forty (40) vouchers and six (6) payroll disbursements and noted the following exceptions:

1. In one (1) purchase order, we noted that the officer who signed as Coordinator Buying Officer is the same person who signed as the Budget Director. There was no segregation of duties.
2. In one (1) voucher of payment, we noted that the total hours worked that indicates the invoice is incorrect. The Program paid forty-seven hours and only work forty-five hours. The payment process will be due for \$1,175.00 and should be \$1,125.00. **The Municipality** paid \$50.00 which were no allowed.
3. In two (2) payments of payroll, we noted that the Program will pay the employee less than the amount indicated. The employees worked all labored hours and the program reduce days. When the first working day of the employee is Monday and his contract begins the same day, **The Municipality** discount Saturday and Sunday before the effective date of the contract. The Program only can deduct the employee working days because they are salaried employees.
4. In nine (9) vouchers the concept of payment indicating in the disbursement is incorrect.

##### Criteria

45 CFR Part 92, Subpart B, Section 92.14. The funds provided under this part shall be administered in compliance with the standards set forth in part 87. 45 CFR Part 92, Subpart C, Section 92.20 (b) (2), (b) (5), (b) (6), *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. *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

45 CFR Part 1301, Subpart D, Section 1301.31, (a), (1). *Personal Policies.* Written policies, grantee and delegate agencies must establish and implement written personnel policies for staff that are approved by the Policy Council or Policy Committee and that are made available to all grantee and delegate agency staff. At a minimum, such policies must include: Descriptions of each staff position, addressing, as appropriate, roles and responsibilities, relevant qualifications, salary range, and employee benefits (see 45 CFR 1304.52(c) and (d)).

Finding Number 2008-01 (FA) - Allowable Costs/Cost Principles (B) (MW), Continue

Cause

The Program did not maintain an effective control over purchase order authorizations and supporting documents of voucher. In addition, the Human Resources Department considers Saturday and Sunday to determine the hours and working days. When an employee starts working on the first day of the week, the Human Resource Department has adopted by use and custom deducted from their pay the first Saturday and Sunday corresponding to the semi-monthly.

Effect

The lack of effective internal control over disbursement and lack of payroll personal written policies represents that **The Municipality** is not in compliance with laws and regulations concerning disbursement procedures.

Recommendation

**The Municipality** should evaluate its internal controls over disbursement and establishing written policies on the payroll and ascertain that comply with applicable laws and regulations. We recommended disbursement policies and procedures are developed and implemented to ensure vendor information is accurate and complete. In addition, should follow its internal control to ensure adequate segregation of duties is maintained.

Questioned Cost

**\$50**

Finding Number 2008-02 (FA) - Cash Management (C) (MW)

Condition

In our drawdown test over forty two (42) disbursements, we noted the following exceptions:

1. Two (2) checks do not appear in the register control check that is where the Program specifies the date on which they are mail, the date, and signature of the person who collected it in person.
2. One (1) check prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement.
3. One (1) check was delivered to the supplier or participant more than three (3) days of the next workday after the funds were deposit in the bank account.
4. Five (5) cash requests did not include the signature of the Officer Program who prepared the request.
5. Twenty (20) cash requests did not include the signature of the Officer Program who verifies the request.
6. In the following request for funding, the Program requests the incorrect amount. The amount of the requests for funding and supporting documents does not agree. The Program requests more funds that the immediately need:
  - Cash request on October 9, 2007 for \$316,408.51, the correct amount was for \$310,408.52. Funding request in excess for **\$6,000.00** was not reconciled and or corrected in the next request.
  - Cash request on July 20, 2007 for \$53,234.09, was duplicated, because had been requested in the cash request made on June 28, 2007 for \$105,716.28. Funding request in excess for **\$53,234.09** was not reconciled and or corrected in the next request.

Finding Number 2008-02 (FA) - Cash Management (C) (MW), Continue

Condition

- Cash request on June 16, 2008 for \$48,934.73 and the correct amount was for \$23,194.73. Funding request in excess for \$25,740.00 was reconciled in the next requests.
  - Cash request on June 9, 2008 for \$160,566.17, the correct amount is \$157,336.17. Funding request in excess for 3,230.00 was reconciled in the next requests.
7. During our audit of program bank reconciliations account number 071-036938, we noted that the cash balance shown higher average monthly cash balance over \$47,400, as follows:
- July 2007 - \$54,133.01
  - September 2007 - \$48,291.53
  - October 2007 - \$60,262.09
  - November 2007 - \$57,103.73
  - January 2008 - \$55,346.94
  - April 2008 - \$283,889.49
  - May 2008 - \$49,495.61
8. During our audit of program bank reconciliations account number 071-036938, we noted differences between the book balance and bank reconciliation in the following months:
- May 2008
  - June 2008

Criteria

45 CFR Part 92, Subpart C, Section 92.20 (b) (3), *Internal control*. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

45 CFR Part 92, Subpart C, Section 92.20 (b) (7), *Cash management*. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Finding Number 2008-02 (FA) - Cash Management (C) (MW), Continue

Criteria

45 CFR Part 92, Subpart D, Section 92.52, (a) Any funds paid to a grantee in excess of the amount to which the grantee is finally determined to be entitled under the terms of the award constitute a debt to the Federal Government. If not paid within a reasonable period after demand, the Federal agency may reduce the debt by: (1) Making an administrative offset against other requests for reimbursements, (2) Withholding advance payments otherwise due to the grantee, or (3) Other action permitted by law. (b) Except where otherwise provided by statutes or regulations, the Federal agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (4 CFR Ch. II). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

Cause

This condition was primarily caused by the lack of effective internal control over cash management procedures. The Program does not maintain a regular monitoring of the excessive balance in cash.

Effect

This situation could cause reimbursement of funds to the federal agencies correspond of interest earned by maintain excess cash on hand and by request funds that not represent an immediate need.

Recommendation

**The Municipality** should improve the internal control to comply with the cash management federal regulation to the time elapsed between the receipts of funds, the request of funds requirements process, the final disbursement for expenditures and the cash balance.

Questioned Cost

**\$73,234**

Finding Number 2008-03 (FA) - Davis Bacon Act (D) (MW)

Condition

We evaluated the only contract of construction that was in force during the fiscal year 2007-2008, and noted the following:

1. Four (4) payroll certifications without the contractor signature.
2. The Program has no evidence of the final inspection of the project which indicates that the work is completed in accordance with the approval.
3. Contract without evidence of the Payment of Prevailing Wages Table.

Criteria

45 CFR Part 1309, Subpart F, Section 1309.53 (a), (b). The grantee must provide and maintain competent and adequate architectural or engineering inspection at the work site to insure that the completed work conforms to the approved plans and specifications. The grantee must submit a final architectural or engineering inspection report of the facility to the responsible HHS official within 30 calendar days of substantial completion of the construction or renovation.

Finding Number 2008-03 (FA) - Davis Bacon Act (D) (MW), Continue

Criteria

45 CFR Part 1309, Subpart F, Section 1309.54, Construction and renovation projects and subcontracts financed with funds awarded under the Head Start program are subject to the Davis-Bacon Act (40 U.S.C. 276a et seq.) and the Regulations of the Department of Labor, 29 CFR part 5. The grantee must provide an assurance that all laborers and mechanics employed by contractors or subcontractors in the construction or renovation of affected Head Start facilities shall be paid wages at not less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor.

Cause

The Program did not maintain an effective control over the inspection of work and Davis Bacon Act contract provisions required by federal regulations.

Effect

Inadequate review procedures regarding to documentation for disbursement and contract provision process may cause that **The Municipality** may agree with supplier that is not in compliance with state and federal laws.

Recommendation

**The Municipality** should strengthen its internal control on the revision of payroll certification and final project inspection before proceeding with the payment, and maintaining a regular monitoring of all its contracts to ensure they comply with all provisions.

Questioned Cost

Not determinable

Finding Number 2008-04 (FA) - Participants' Eligibility (E) (MW)

Condition

We have performed eligibility test to forty (40) participants' files and noted the following exceptions:

1. In five (5) files examined the family composition that indicates the social history was wrong.
2. One (1) file examined did not include evidence of Birth Certification.
3. One (1) file examined did not include evidence of Social Security Verification.
4. Three (3) files examined did not include evidence of family income.
5. Eight (8) files examined did not include evidence of the pay stub that certifies family income.
6. Ten (10) files examined did not include evidence of Certification of Income Tax Return for the last five years.
7. Five (5) files examined did not include evidence of Family Department Certification (PAN).
8. Eight (8) files examined did not include evidence of Certification of Child Support (ASUME).
9. Fifteen (15) files examined did not include evidence of Department of Labor Certification.

Finding Number 2008-04 (FA) - Participants' Eligibility (E), Continue

Condition

10. Six (6) files examined did not include evidence of family Social Security Income.
11. Four (4) files examined did not include evidence of the Family Income Certification.
12. In two (2) files examined the certification of income does not indicate the total hours worked, therefore unable to assess the total family income.
13. Eighteen (18) files examined did not include evidence of Supplemental Nutrition Program for Women, Infant and Children (W.I.C.)
14. Eight (8) files examined did not include evidence of utilities invoice showing residential address.
15. Nine (9) files examined have the family income calculated incorrectly.
16. In two (2) files examined the family did not meet the income limit and the child does not appear in the list of high-income enrollment.
17. Six (6) files examined the family compositions that indicate the Certification of Eligibility was wrong.
18. One (1) file examined did not include evidence of Certification of Eligibility.
19. In one (1) file examined the child, although was considered of special need, it is not included in the list of children with special needs.
20. One (1) file examined did not include evidence of Physical Examination that applies to the fiscal year audited.
21. In one (1) file examined the physical examination was performed late, more than ninety days after the first day of classes.
22. One (1) file examined did not include evidence of Dental Examination that applies to the fiscal year audited.
23. In one (1) file examined the dental examination was performed late, more than ninety days after the first day of classes.
24. In five (5) files examined the physical examination and dental examination did not have evidence of the name (signature) of the examiner.
25. Two (2) files examined had evidence of only one Curriculum Creative Progress Report.
26. Two (2) files examined had evidence of only two Curriculum Creative Progress Report.
27. In one (1) file examined the curriculum creative progress report no has evidence of the signature of the teacher.
28. In one (1) file examined the curriculum creative progress report no has evidence of the family signature.
29. Two (2) files examined did not have evidence of Home Visit.
30. Three (3) files examined had evidence of only one Home Visit.

Finding Number 2008-04 (FA) - Participants' Eligibility (E), Continue

Criteria

45 CFR Part 1305, Chapter XIII, Subpart 1305.2 (e). (i) and (l), *Family*, means all persons living in the same household who are: (1) Supported by the income of the parent(s) or guardian(s) of the child enrolling or participating in the program, and (2) related to the parent(s) or guardian(s) by blood, marriage, or adoption. *Income*, means gross cash income and includes earned income, military income (including pay and allowances), veterans benefits, Social Security benefits, unemployment compensation, and public assistance benefits. Additional examples of gross cash income are listed in the definition of "income" which appears in U.S. Bureau of the Census, Current Population Reports, Series P-60-185. *Low-income family* means a family whose total annual income before taxes is equal to, or less than, the income guidelines. For the purpose of eligibility, a child from a family that is receiving public assistance or a child in foster care is eligible even if the family income exceeds the income guidelines.

45 CFR Part 1305, Chapter XIII, Section 1305.4 (c), (d), (e), The family income must be verified by the Head Start program before determining that a child is eligible to participate in the program. Verification must include examination of any of the following: Individual Income Tax Form 1040, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documentation showing current status as recipients of public assistance. A signed statement by an employee of the Head Start program, identifying which of these documents was examined and stating that the child is eligible to participate in the program, must be maintained to indicate that income verification has been made.

45 CFR Part 1305, Chapter XIII, Section 1305.6 (a), Each Head Start program must have a formal process for establishing selection criteria and for selecting children and families that considers all eligible applicants for Head Start services. The selection criteria must be based on those contained in paragraphs (b) and (c) of this section.

45 CFR Part 1304 Chapter XIII, Section 1304.20 (a),(b), Determining child health status. (1) In collaboration with the parents and as quickly as possible, but no later than 90 calendar days (with the exception noted in paragraph (a)(2) of this section) from the child's entry into the program (for the purposes of 45 CFR 1304.20(a)(1), 45 CFR 1304.20(a)(2), and 45 CFR 1304.20(b)(1), "entry" means the first day that Early Head Start or Head Start services are provided to the child), grantee and delegate agencies must: (i) Make a determination as to whether or not each child has an ongoing source of continuous, accessible health care. If a child does not have a source of ongoing health care, grantee and delegate agencies must assist the parents in accessing a source of care; (ii) Obtain from a health care professional a determination as to whether the child is up-to-date on a schedule of age appropriate preventive and primary health care which includes medical, dental and mental health. Screening for developmental, sensory, and behavioral concerns: (1) In collaboration with each child's parent, and within 45 calendar days of the child's entry into the program, grantee and delegate agencies must perform or obtain linguistically and age appropriate screening procedures to identify concerns regarding a child's developmental, sensory (visual and auditory), behavioral, motor, language, social, cognitive, perceptual, and emotional skills (see 45 CFR 1308.6(b)(3) for additional information). To the greatest extent possible, these screening procedures must be sensitive to the child's cultural background; (2) Grantee and delegate agencies must obtain direct guidance from a mental health or child development professional on how to use the findings to address identified needs; (3) Grantee and delegate agencies must utilize multiple sources of information on all aspects of each child's development and behavior, including input from family members, teachers, and other relevant staff who are familiar with the child's typical behavior.

Finding Number 2008-04 (FA) - Participants' Eligibility (E), Continue

45 CFR Part 1304, Chapter XIII, Section 1304.40 (i) (1) to (4), *Parent involvement in home visits*. (1) Grantee and delegate agencies must not require that parents permit home visits as a condition of the child's participation in Early Head Start or Head Start center-based program options. Every effort must be made to explain the advantages of home visits to the parents. (2) The child's teacher in center-based programs must make no less than two home visits per program year to the home of each enrolled child, unless the parents expressly forbid such visits, in accordance with the requirements of 45 CFR 1306.32(b)(8). Other staff working with the family must make or join home visits, as appropriate. (3) Grantee and delegate agencies must schedule home visits at times that are mutually convenient for the parents or primary caregivers and staff. (4) In cases where parents whose children are enrolled in the center-based program option ask that the home visits be conducted outside the home, or in cases where a visit to the home presents significant safety hazards for staff, the home visit may take place at an Early Head Start or Head Start site or at another safe location that affords privacy. Home visits in home-based program options must be conducted in the family's home. (See 45 CFR 1306.33 regarding the home-based program option.)

Cause

The lack of effective internal controls to enforcement the programmatic procedures established by the Program. Lack of effective internal monitoring over eligibility procedures, income documentation and evaluation, home visit, health evaluation and all document required in the participant file.

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. In addition, we recommended procedures be strengthened to ensure eligibility process are adequately documented and participant files contain all required information and are adequately.

Questioned Cost

Not Determinable

Finding Number 2008-05 (FA) - Equipment and Real Property Management (F) (MW)

Condition

We performed audit procedures to four (4) addition equipment disbursements (over \$5,000) during the fiscal year audited, and examined the property subsidiary ledger and the internal control of property, plan, and equipment and noted the following:

1. One (1) equipment examined was not recorded in the subsidiary property ledger.
2. One (1) disbursement did not have evidence of when the Program receipts the merchandise.
3. Three (3) equipments examined, the subsidiary property ledger did not indicate the serial number.
4. One (1) equipment examined, the subsidiary property ledger does not indicate the condition and use of equipment.
5. Three (3) equipments examined physically did not have evidence of the tag number.

Finding Number 2008-05 (FA) - Equipment and Real Property Management (F) (MW), Continue

Condition

We performed audit procedures to twenty (20) equipments or material (less than \$5,000) of the centers and we noted the following:

1. Two (2) equipments examined physically did not appear registered in the subsidiary property ledger.

Criteria

45 CFR Part 92, Subpart C, Section 92.32 (d) (1) to (4). Management requirements. 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: (1) 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. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. (3) 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. (4) Adequate maintenance procedures must be developed to keep the property in good condition.

Cause

**The Municipality** did not maintain an effective internal control over the information recorded in the equipment subsidiary ledger. In addition, lack of effective supervision over the equipment and real property management area.

Effect

Incomplete documentation in the record of subsidiary property can cause errors and misuse of equipment purchased with Federal funds which may result in questioned cost.

Recommendation

**The Municipality** must update the information required in the subsidiary property ledger in order to comply with federal regulation. In addition, should establish an effective internal control process to reconcile at least annually the subsidiary ledger of the fixed assets to the general ledger.

Questioned Cost

None

Finding Number 2008-06 (FA) - Matching (G) (MW)

Condition

1. We chose two months to evaluate the supporting documents for cash or in-kind local contributions and noted the following:
  - a. In all samples observed differences between the documents to support the volunteer work and the amount recorded in the general ledger.
  - b. In all samples observed differences between the documents to support the other expenses and the amount recorded in the general ledger.

Condition

2. During the evaluation of cash or in-kind local contribution we noted that the amount recorded as in-kind to the general ledger is wrong, because the supporting documents was not joined properly during the fiscal year audited.
3. We noted that the Program registers as in-kind the State Insurance Fund, without having paid the federal funds budgeted in the proposal.
4. **The Municipality** did not comply with the 20% local contribution (In-Kind or Cash) at June 30, 2008, were uncovered matching of \$154,523.11. The Program reported in the accounting record voluntary work cash improperly. This deficit represents a questioned cost of \$618,092.94, but the Federal Agency can recovery the total Federal share.

Criteria

45 CFR Part 1301, Chapter XIII, Section 1301.20, (a) Federal financial assistance granted under the act for a Head Start program shall not exceed 80 percent of the total costs of the program, unless: (1) An amount in excess of that percentage is approved under section 1301.21; or (2) The Head Start agency received Federal financial assistance in excess of 80 percent for any budget period falling within fiscal year 1973 or fiscal year 1974. Under the circumstances described in clause: (3) of the preceding sentence, the agency is entitled to receive the same percentage of Federal financial assistance that it received during such budget periods. (b) The non-Federal share will not be required to exceed 20 percent of the total costs of the program. (c) Federal financial assistance awarded to Head Start grantees for training and technical assistance activities shall be included in the Federal share in determining the total approved costs of the program. Such financial assistance is, therefore, subject to the 20 percent non-Federal matching requirement of this subpart.

45 CFR Part 92, Subpart C, Section 92.24, (b) (6) and (b) (7), *Records*. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs. Special standards for third party in-kind contributions: (i) Third party in-kind contributions count towards satisfying a cost sharing or matching requirement only where, if the party receiving the contributions were to pay for them, the payments would be allowable costs; (ii) Some third party in-kind contributions are goods and services that, if the grantee, subgrantee, or contractor receiving the contribution had to pay for them, the payments would have been an indirect costs. Costs sharing or matching credit for such contributions shall be given only if the grantee, subgrantee, or contractor has established, along with its regular indirect cost rate, a special rate for allocating to individual projects or programs the value of the contributions.

Cause

The Program does not maintain effective control over the process of evaluating local contribution (In-Kind or Cash). **The Municipality** is not providing enough to meet its local contribution.

Effect

In **The Municipality** fails to meet its local contribution the federal agency can question cost all federal funds share.

Finding Number 2008-06 (FA) - Matching (G) (MW), Continue

Recommendation

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

Questioned Cost

**\$618,092**

Finding Number 2008-07 (FA) - Earmarking (G) (MW)

Condition

1. Pursuant to the final Financial Assistance Award for the budget period from January 1, to December 31, 2007, the approved budget was \$11,994,494 for a client population of 1,752, representing in \$6,846.17 per child. An unobligated balance of federal funds for \$278,508 resulted in the Financial Status Report filed for this budget period. The enrollment included in the proposal for this budget period was 1,752 children. However, the active enrollment was 1,633 children. The enrollment deficiency of 119 children caused that the Program received approximately \$536,186.51 in excess for this budget period.
2. In nineteen (19) center examined, the monthly average daily attendance rate was below 85%. This situation has the effect of decreasing the Head Start funds for meal payments.

Criteria

45 CFR Part 1305, Chapter XIII, Section 1305.7 (b) Enrollment and re-enrollment, establishes the following: a Head Start grantee must maintain its funds enrollment level. When a program determines that a vacancy exists, it should be filled out the vacancy in no more than 30 calendar days. A Program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year.

45 CFR Part 1305, Chapter XII, Section 1305.10 Compliance, establishes the following: a grantee's failure to comply with the requirements of this part may result in a denial of refunding or termination in accordance with 45 CFR part 1303.

Cause

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

Effect

A grantee's failure to comply with the requirements may result in a denial of refunding or termination in accordance with 45 CFR 1303.

Recommendation

**The Municipality** should strengthen its procedures to ensure enrollment requirements are met.

Questioned Cost

**\$536,186**

Finding Number 2008-08 (FA) - Period of Availability of Federal Funds (H) (MW)

Condition

During our test over forty (40) liquidations of obligation at December 31, 2007, we noted the following exceptions:

1. Nine (9) disbursements totaling the amount of \$273,101.32 were paid after 90 days at the close of the grant award. The Program did not receive a waiver letter issued by Region II authorizing those payments.

Criteria

45 CFR Part 92, Subpart C, Section 92.23 (b). *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee

Cause

The Program does not have an effective internal control which can demonstrate and monitor all of its obligations which are outstanding payments to the end of federal grant award.

Effect

**The Municipality** may be responsible for assuming the responsibility to pay all outstanding payment obligations that were not cleared in time.

Recommendation

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

Questioned Cost

**\$273,101**

Finding Number 2008-09 (FA) - Procurement and Suspension and Debarment (I) (MW)

Condition

We have performed audit procedures to ten (10) contracts and forty (40) purchase orders and noted the following exceptions:

1. One (1) contract does not indicate the date of signature.
2. Three (3) contracts without evidence of Department of Treasury Debt Certification.
3. Two (2) contract without evidence of Certification of Movable and Immovable Property (CRIM).
4. Two (2) contract without evidence of Municipal Tax License.
5. Two (2) contract without evidence of Certification of Income Tax Return of the last five years.
6. Four (4) contracts without evidence of Family Child Support (ASUMIE) Certification.
7. Two (2) contracts without evidence of the Oath Declaration according to Law 428 of August 22, 2004.

Finding Number 2008-09 (FA) - Procurement and Suspension and Debarment (I) (MW), Continue

Condition

8. Four (4) contracts without evidence of the Policy of the State Insurance Funds.
9. Six (6) contracts without evidence of Certification of Good Standing.
10. Six (6) contracts and twelve (12) purchase orders examined without evidence of verified in the Excluded Parties List.
11. Five (5) contracts and seven (7) purchase orders examined did not include evidence of Competitive process (Bid, Proposal or Quotation).
12. Four (4) contracts without clause of Child Support.
13. Five (5) contracts without clause of No Discrimination.
14. Ten (10) contracts without clause of Debarment and Suspension.
15. Two (2) contracts without clause of Provision for Termination by grantees for default.
16. Four (4) contracts without clause of Granting Access GAO or other federal agency to books, documents, paper, and records.
17. Five (5) contracts without clause of retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

Criteria

45 CFR Parts 92, Subpart C, Section 92.36. (a), (b) (1), (b) (2), *States*. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section. *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. Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. 45 CFR Part 92, Subpart C, Section 92.36 (c), *Competition*. (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 92.36.

45 CFR Part 92, Subpart C, Section 92.36 (i), *Contract provisions*. A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. (1) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions. (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

State Circular Letter OE-1992-52, Law of the Department of Comptroller, Program Policy Internal Control, and Revised Regulations on Basis Standards for **The Municipality**.

Finding Number 2008-09 (FA) - Procurement and Suspension and Debarment (I) (MW), Continue

Cause

The lack of integration of the contractual procedures established by **The Municipality** Legal Division and the Program does not comply with state and federal regulations. In addition, the Program does not have an effective internal control over the documents required in the contract file, and does not maintain an internal monitoring of the recruitment process.

Effect

Inadequate review procedures regarding to procurement, suspension and debarment process may cause that **The Municipality** may agree with supplier that is not in compliance with federal and state laws.

Recommendation

**The Municipality** should take the necessary actions required in the program's management in order to comply with the Federal and State laws. The Program should establish procurement policies and procedures be developed and implemented to ensure competitive process (bid, proposal or quotation) are obtained in accordance with applicable Federal regulations.

Questioned Cost

Not Determinable

Finding Number 2008-10 (FA) - Reporting (L) (MW)

Condition

During the evaluation of the Financial Status Report (FSR-269) funding grant period ended December 31, 2007 and submitted in June 3, 2008, we noted the following:

1. The total accumulated federal shares reported in the report are incorrect. The Program does not report federal expenditures correspond to training cost (PA-20). The total federal expenditures reported were \$11,715,986 and the correct amount was \$11,774,009, there is a difference of \$58,023.
2. Difference between total federal shares of net outlays \$226,781.00 and the accounting records. The total federal shares of the period correspond to unliquidated obligation at December 31, 2007. The program reported unliquidated obligation by \$226,781 and only have accounting evidence of \$96,363.32. The auditor can not evidence whether the difference of \$130,416.68 were obligations made on or before December 31, 2007 and belong to an expense of the budget year 2007.

Criteria

45 CFR Part 92, Subpart C, Section 92.41 (b), Financial Status Report--(1) Form. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with Sec. 92.41(e)(2)(iii). (2) Accounting basis. Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through and analysis of the documentation on hand. (3) Frequency. The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support. (4) Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

Finding Number 2008-10 (FA) - Reporting (L) (MW). Continue

Criteria

45 CFR Part 92, Subpart C, Section 92.20 (a) (2), State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

45 CFR Part 92, Subpart C, Section 92.20, (b), (1), (2). The financial management systems of other grantees and subgrantees must meet the following standards: (1) *Financial reporting*. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) *Accounting records*. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause

The Program did not established effective procedures for the reconciliation of FSR expenditures and unliquidated obligations reported to federal agency versus the data recorded in accounting system.

Effect

The Program reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.

Recommendation

Management should take appropriate actions to reconcile in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data.

Questioned Cost

**\$130,416**

Finding Number 2008-11 (FA) - Accounting records (L) (MW)

Condition

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

1. The Program is not spending federal funds according to the approved budget in the proposal. According to the evaluation of the proposal 2008, had a surplus over the State Insurance Fund by \$164,763. The Program could not evidence that the funds awarded were spent. The Program has no evidence that the federal agency has approved a change in budget. **The Municipality** has to use the federal funds restricted to the applicable Federal program.

Criteria

45 CFR Part 92, Subpart C, Section 92.30 (a), *General*. Grantees and subgrantees are permitted to rebudget within the approved direct cost budget to meet unanticipated requirements and may make limited program changes to the approved project. However, unless waived by the awarding agency, certain types of post-award changes in budgets and projects shall require the prior written approval of the awarding agency.

Criteria

45 CFR Part 92, Subpart C, Section 92.30 (c), *Budget changes*. Nonconstruction projects. Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated under a nonconstruction award: (i) Any revision which would result in the need for additional funding. (ii) Unless waived by the awarding agency, cumulative transfers among direct cost categories, or, if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds \$100,000. (iii) Transfer of funds allotted for training allowances (i.e., from direct payments to trainees to other expense categories).

45 CFR Part 92, Subpart C, Section 92.30 (f), *Requesting prior approval*. (1) A request for prior approval of any budget revision will be in the same budget format the grantee used in its application and shall be accompanied by a narrative justification for the proposed revision. (2) A request for a prior approval under the applicable Federal cost principles (see Sec. 92.22) may be made by letter. (3) A request by a subgrantee for prior approval will be addressed in writing to the grantee. The grantee will promptly review such request and shall approve or disapprove the request in writing. A grantee will not approve any budget or project revision which is inconsistent with the purpose or terms and conditions of the Federal grant to the grantee. If the revision, requested by the subgrantee would result in a change to the grantee's approved project which requires Federal prior approval, the grantee will obtain the Federal agency's approval before approving the subgrantee's request.

45 CFR Part 92, Subpart C, Section 92.20 (a) (2), State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

45 CFR Part 92, Subpart C, Section 92.20, (b) (4), *Budget control*. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Cause

The Program does not have an effective monitoring on the approved budget and expenditures. The staff of fiscal area is not aware about the waiver they have to request by the awarding agency before making changes.

Effect

Inadequate control over accounting process may cause that **The Municipality** did not comply with federal regulations and the awarding agency could reduce or recapture Head Start fund.

Recommendation

Management should take necessary step on the evaluation of the budget and actual expenditures. **The Municipality** must give financial training to the accountants in charge in the preparation of budget and financial report to ascertain that the accounting system comply with state and federal law. In addition, **The Municipality** should implement internal procedures to ensure the use of Federal funds is restricted to be applicable Federal program.

Questioned Cost

**\$164,763**

Finding Number 2008-12 (FA) - Accounting Management System (L) (MW)

Condition

We evaluated all notification that receives the Program from the Department of Health & Human Services, Region II (Administration for Children and Families) and noted that **The Municipality** have a loan debt with the Federal Agency by the amount of \$700,837.35 (principal due \$656,767 and interest due \$44,070.85) that has not been paid at the close of the fiscal year audited (June 30, 2008). During the fiscal year audited we noted that **The Municipality** does not have this debt recorded in its accounting records and according to the Director of the Program these funds will not appear in their cash accounts.

Criteria

Department of Health & Human Services Notification at July 2, 2008, Debt Management Branch, Division of Financial Operations, Program Support Center. Reference Number: 02-6-84920. Claim Number: 714080097, Type of Debt: Audit Disallowance, Interest Rate: 13.125. Principal Due: \$656,767.00. Interest Due: \$44,070.85, Total Due: \$700,837.85.

45 CFR Part 92, Subpart C, Section 92.20 (b) (1), (2), (3). The financial management systems of other grantees and subgrantees must meet the following standards: (1) *Financial reporting*. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) *Accounting records*. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) *Internal control*. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

45 CFR Part 92, Subpart D, Section 92.51 (a), (b). The closeout of a grant does not affect: The Federal agency's right to disallow costs and recover funds on the basis of a later audit or other review; The grantee's obligation to return any funds due as a result of later refunds, corrections, or other transactions.

45 CFR Part 92, Subpart D, Section 92.52, (a) Any funds paid to a grantee in excess of the amount to which the grantee is finally determined to be entitled under the terms of the award constitute a debt to the Federal Government. If not paid within a reasonable period after demand, the Federal agency may reduce the debt by: (1) Making an administrative offset against other requests for reimbursements, (2) Withholding advance payments otherwise due to the grantee, or (3) Other action permitted by law. (b) Except where otherwise provided by statutes or regulations, the Federal agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (4 CFR Ch. II). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

Cause

**The Municipality** does not have an effective internal control over financial statements. **The Municipality** does not maintain an effective supervision over the federal funds received in their bank accounts that can only be used for purposes of the federal program. In addition, **The Municipality** has not paid the debt because the total amount of \$700,837.35 was not projected in our budget.

Effect

**The Municipality** will have to repay any Federal funding received that was not used for its purpose and if the debt does not pay on time will have to pay interest and even penalties.

Finding Number 2008-12 (FA) - Accounting Management System (L) (MW), Continue

Recommendation

We recommended that **The Municipality** returned the debt loan to the proper Federal agency in the required time.

Questioned Cost

None

Finding Number 2008-13 (FA) - Center Licenses, Physical Environmental, Equipment, Material and Facilities (N) (MW)

Condition

During our test over four centers, we noted the following exceptions:

1. Two (2) centers had expired the Firefighter Certificate.
2. **Early Home Base Center – Class Room III:** The interior door is not closed; lock faulty; the electrical outlets accessible to children, did not have resistant covers. **Class Room IV:** The interior paint is damaged; filtration roof; column of cement in the middle of the classroom is not protective cushions.
3. **Corral Viejo** – Disabled ramp is broken. Classroom door with access to yard is damaged. The bathroom has water pipes exposed to children. The bathroom is dirty. The kitchen walls are dirty and have fungus. The kitchen has excrement of rat in cabinets and everywhere. The kitchen has no heater or water distiller in use. The walls of the center are damaged inside and outside and have fungus. The emergency lights do not work. Dirty areas and parts of the floor is cement. Refrigerator oxidized everywhere. Painting interior and exterior are deteriorated. Game yard is dirty, exposed pipes, roots and rocks dangerous, the ground is not prepared for use by children. The electrical outlets accessible to children did not have resistant covers. Light did not have resistant covers. Light pipe is oxidized. Some windows and grab without write protection. Filtration roof. The center is not in good condition. does not complied with the objective of the Program.
4. **Magueyes I and II** – The center does not have ramps for disabled children in the yard. Not appropriate outdoor space. In the children bathroom the toiled lid is rusted. the bathroom is dirty, without write windows and no has handicapped railings. The master room has broken windows, damaged walls and a ceiling light does not work. The food store has cockroaches everywhere. Emergency lights not working. The center “Magueyes I” did not have smoke detector. Outdoor dirty. In the game yard the trees have comejen, game do not have soft drop, yard dirty, the playground equipment has excrement of pigeon, roots and rocks dangerous, and cement fence is broken. The electrical outlets accessible to children did not have resistant covers. In the center “Magueyes I” the ceiling fan and the closet is dirty and a ceiling lamp is not working.
5. **Coto Laurel** - The bathrooms did not have handicapped railings. The center did not have disabled ramp at the door accessing the playground. Emergency lights is not working. Some doors do not have the exit sign. Exterior paint is deteriorated. The playground equipment is in steel, are oxidized, not have soft drop and the equipment have areas without protection.

Finding Number 2008-13 (FA) - Center Licenses, Physical Environmental, Equipment, Material and Facilities (N) (MW), Continue

Criteria

45 CFR Part 1306, Subpart C, Section 1306.30 (c). The facilities used by Early Head Start and Head Start grantee and delegate agencies for regularly scheduled center-based and combination program option classroom activities or home-based group socialization activities must comply with State and local requirements concerning licensing. In cases where these licensing standards are less comprehensive or less stringent than the Head Start regulations, or where no State or local licensing standards are applicable, grantee and delegate agencies are required to assure that their facilities are in compliance with the Head Start Program Performance Standards related to health and safety as found in 45 CFR 1304.53(a), Physical environment and facilities.

45 CFR Part 1304, Subpart D, Section 1304.53, establish that Grantees and Delegate Agencies must provide for the maintenance, repair, safety, access requirements for children with disabilities, and security of all Head Start and Early Head Start facilities, materials and equipment.

Cause

The management and maintenance department does not maintain a regular monitoring on the centers of the Program. In addition, **The Municipality** is not taking the necessary steps on the deficiencies noted above in order to keep schools in good conditions.

Effect

If **The Municipality** does not maintain facilities, material, and equipment in good conditions and does not meet the safety standards the federal agency can send to close the schools.

Recommendation

We recommended policies and procedures are developed and implemented to ensure the provision of proper maintenance, repair safety and security of all facilities and equipment.

Questioned Cost

None

**FEDERAL PROGRAM – HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)**

Finding number 2008-14 (FA) -- Cash Management (C) (MW)

Condition

During our cash management test we noted the following exceptions:

1. In our drawdown test over fifteen (15) request, we noted that three (3) checks were submitted to service providers up to five days after the funds were available in the bank account.
2. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance by approximately \$25,000.

Finding number 2004-14 (FA) – Cash Management (C) (MW). Continue

Criteria

45 CFR Subpart C, Section 92.21 (b), (c), *Basic Standard*. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205. *Advance*, Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

45 CFR Subpart C, Section 92.20 (b) (7), *Cash Management*. Procedures for minimizing the time elapsing between the transfers of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electric transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Cause

**The Municipality's** internal control over cash is not effective since it is holding excessive cash balance 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 clapsing time for disbursement.

Effect

Excessive cash balances kept by program to cover disbursements in against of the procedures recommended by the federal regulations.

Recommendation

**The Municipality** should take the necessary actions on disburse funds within the time constraints imposed by the federal requirement and avoid held excessive cash balance in bank account.

Questioned costs

None

Finding Number 2008-15 (FA) - Eligibility (E) (MW)

Condition

In our test of seven (7) eligibility agencies, we noted the following exceptions:

1. For two service providers, **The Municipality** did not request the complete Single Audit report which included the "Internal Control over Compliance in Accordance with OMB Circular A-133" report with their respective findings.
2. One service provider did not submit the professional certifications of personnel who provided direct services to patients
3. For one service provider, **The Municipality** did not request the audit of financial statements and compliance under OMB Circular A-133 audited although this provider expend more than \$500,000 in federal awards.

Finding Number 2008-15 (FA) - Eligibility (E) (MW), Continue

Criteria

45 CFR Subpart C, Section 92.26 9(a), grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31U.S.C. 7501-7507) and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organization". The audits shall be made by an independent auditor in accordance with generally accepted government auditing standards covering financial audits. 45 CFR Subpart C, Section 92.26 (b)(3), ensure that appropriate corrective action is taken within six months after receipt of the audit report in instance of noncompliance with Federal laws and regulations.

The Internal Control Proposal development Guidelines for Request of Funds establish that the professional certifications of personnel who provide direct services to patients must be included in the Request of Funds Proposal.

Cause

Lack of adequate knowledge of program administrative personnel regarding the report required to request by federal regulations and no properly revision to the Proposal Development Guideline for Request of Funds to the sub-recipient entities.

Effect

Increase the risk of material weakness and/or control deficiencies findings which effect directly the program federal assistance and no take appropriate corrective action.

Recommendation

We recommend to the administration of the program to request audited financial statement and OMB A-133 Single Audit report to service provider sub-recipients and request to include the professional certifications in the Request of Funds Proposal.

Questioned cost

None

Finding Number 2008-16 (FA) - Matching, Level of Effort, Earmarking (G) (MW)

Condition

Our test cost per patient served reflecting differences between expenditures reported in the WICY expenditures worksheet and accounting records. As a result, the percentage reported may not be real.

Criteria

Public Law 109-415, Section 2604(f), establishes that the purpose of providing health and support services to infants, children, youth, and women with HIV/AIDS, including treatment measures to prevent the prenatal transmission of HIV, the chief elected official of an eligible area, in accordance with the established priorities of the planning council, shall for each of such population in the eligible area use, from the grants made for the area under section 2601(a) for a fiscal year, not less that the percentage constituted by the ration of the population involved (infants, children, youth, or women in such area) with HIV/AIDS to the general population in such area of individual with HIV/AIDS.

Finding Number 2008-16 (FA)- Matching, Level of Effort, Earmarking (G) (MW), Continue

Cause

The program is not followed up to service providers to send reports of population served including related costs. Data provided by client was prepared using clinical reports which resulted inaccurate and unreliable when we performed recomputed tests.

Effect

Percentage and expenditures reported for population services may not be real.

Recommendation

We recommend that the administration of the program exercise greater control over the agencies and service providers to ensure that all submitted the require reports.

Questioned cost

None

Finding Number 2008-17 (FA) - Period of Availability of Federal Funds (H) (MW)

Condition

The program does not prepare a detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period.

Criteria

45 CFR Subpart C, Section 92.23 (b). *Liquidation of Obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Cause

The Program did not maintain internal control over the details of accounts payable that prevail at the end of the fiscal year.

Effect

Not having effective control over the obligations outstanding at the end of the funding period can cause failure with the period of availability required by the federal regulation for the liquidation of obligations and in addition, may cause errors in the information provided in the Financial Status Report (SF-269).

Recommendation

**The Municipality** must prepare a detail specifying all of its obligations which are outstanding at the end of each funding period in this way can be an efficient control on the period of availability of funds.

Questioned cost

None

Finding Number 2008-18 (FA) - Procurement and Suspension and Debarment (I)

Condition

In seven (7) contracts tested, we found the following exceptions:

1. Six (6) contract examined did not include the Bird-Anti-Lobbying Certification.
2. No observed evidence that the Program management request to Provider Agencies compliance with contract clause regarding submission of quarterly expenditures reports and close out report 30 days after end of award period.

Criteria

OMB Circular A-110, Appendix A, *Contract Provisions*, all contracts, awarded by recipient including small purchases, shall contain the following provisions as applicable: (7). **Bird Anti-Lobbying Amendment (31 U.S.C. 1352)** – Contractors who apply or bid for an award of \$100,000 or more shall file the required certification. Each tier certifies to the tier above that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Each tier shall also disclose any lobbying with non-Federal funds that takes place in connection with obtaining any Federal award. Such disclosures are forwarded from tier up to the recipient.

45 CFR Subpart C, Section 92.37 (b)(2). Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations.

45 CFR Subpart C, Section 92.40 (b)(1). Grantees shall submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. However, performance reports will not be required more frequently than quarterly. Annual reports shall be due 90 day after the grant year, quarterly or semi-annual reports shall be due 30 days after the reporting period. The final performance report will be due 90 days after the expiration or termination of grant support. If a justified request is submitted by a grantee, the Federal agency may extend the due date for any performance report. Additionally, requirements for unnecessary performance reports may be waived by the Federal agency.

Cause

The Guide for Preparing Proposals not included in the appendix documents list the requisite of submission of any federal requirement document. The list only request state and local documents and certifications. No properly revision to the Proposal Development Guidelines for Request of funds to the sub-recipient entities. In addition, no properly revision of contract clauses for updates or made changes in contract clauses, if applicable.

Effect

Failures to request the certification for Bird-Anti-Lobbying Amendment may increase the possibility that **The Municipality** could enter into an agreement with any entity that use federal funds to pay for influencing or attempting to influence an officer or member of Congress to obtaining federal contract, grant or award. No compliance with contract grant clauses limited **The Municipality** the reallocation of funds if determine if the funds is not use totally by the sub-recipient.

Recommendation

**The Municipality** must establish an internal control to ensure that the agencies service providers comply with all contract provisions required by Federal and State regulations.

Finding Number 2008-18 (FA) - Procurement and Suspension and Debarment (I). Continue

Questioned cost

None

Finding Number 2008-19 (FA) - Reporting (L)

Condition

The Women, Infants, Children, and Youth (WICY) Report was submitted to the grantor agency after the elapsed time required for submission. The report was submitted on June 24, 2008, twenty six (26) days after the due date.

Criteria

Terms and Conditions of the Notice of Grant Award (March 2007 to February 2008) establish that the grantee must submit the Women, Infants, Children, and Youth (WICY) report within 90 days of budget end date.

Cause

The program's management was unable to meet the due dates for the submission of the reports, and continue to be unfamiliar with program terms 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 2008-20 (FA) - Sub-Recipient Monitoring (M) (MW)

Condition

The program did not perform fiscal monitoring to the service provider financial and accounting record.

Criteria

45 CFR Subpart C, Section 92.40 (a), *Monitoring by Grantees*. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Cause

Lack of adequate personnel trained in the fiscal monitoring process.

Finding Number 2008-20 (FA) - Sub-Recipient Monitoring (M) (MW), Continue

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

**The Municipality** should establish adequate procedures to perform fiscal and programmatic sub-recipient monitoring, including the adequate training of personnel assigned to monitoring functions.

Questioned cost

Not determinable.

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

Finding Number 2008-21 (FA) - Cash Management (C) (MW)

Condition

In our drawdown test over eighteen (18) cash funds requested, we noted the following exceptions:

1. Two (2) checks prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement.
2. One (1) check was submitted to the supplier more than five (5) days of the next workday after the funds were deposited in the bank account.
3. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance by approximately \$22,900.00 in the following month:
  - September 2007
  - February 2008
  - March 2008
  - April 2008
  - May 2008

Criteria

24 CFR Subpart C, Section 85.20 (b) (7), *Cash management*. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to

Finding Number 2008-21 (FA) - Cash Management (C) (MW). Continue

Criteria

assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

24 CFR Subpart C, Section 85.21 (b) and (c), *Basic standard*. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205. *Advances*. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

24 CFR Subpart I, Section 570.489 (c), *Federal grant payments-(1) Payment*. The state shall be paid in advance in accordance with Treasury Circular 1075 (31 CFR part 205). The State shall use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. Units of general local government shall also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities.

Cause

This condition was primarily caused by the lack of effective cash management system procedures established by the Program.

Effect

This situation could cause reimbursement of funds to the federal agencies by maintain excess cash on hand.

Recommendation

**The Municipality** should improve the internal control to comply with the time requirements of federal regulation to the time elapsed between the receipts of funds, the request of funds requirement process, the final disbursement for expenditures and cash balance.

Questioned Cost

None

Finding Number 2008-22 (FA) - Equipment and Real Property Management (F)

Condition

We performed audit procedures to eight (8) equipment disbursement, and examined the property subsidiary ledger and the internal control of property, plant and equipment and noted the following:

1. In the entire sample we observed that the subsidiary ledger (inventory) does not indicate the custody of the equipment and the condition of the property.

Criteria

24 CFR Subpart C, Section 85.32 (d) (1), *Management requirements*. 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

Finding Number 2008-22 (FA) - Equipment and Real Property Management (F)

Criteria

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.

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 2008-23 (FA) - Procurement and Suspension and Debarment (1) (MW)

Condition

In seven (7) contracts procurement process we tested the compliance and internal control and found the following exceptions:

1. One (1) contract without evidence of Certificate of Incorporation.
2. Two (2) contracts without evidence of Corporate Resolution.
3. One (1) contract without evidence of the Policy of the State Insurance Funds.
4. One (1) contract without evidence of Certification of Good Standing.
5. One (1) contract without evidence of verified in the Excluded Parties List.
6. One (1) contract without clause of termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement.
7. One (1) contract without clause of compliance with Section 103 and 107 of the Contract Work Hours and Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations.
8. One (1) contract without clause of Notice of awarding agency requirements and regulations pertaining to reporting.
9. One (1) contract without clause of Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

Criteria

24 CFR Subpart C, Section 85.36 (b), *Procurement standards*. (1) 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.

Criteria

24 CFR Subpart C, Section 85.36 (i), A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. (2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (All contracts in excess of \$10,000. (6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2,000, and in excess of \$2,500 for other contracts which involve the employment of mechanics or Laborers). (7) Notice of awarding agency requirements and regulations pertaining to reporting. (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.

24 CFR Subpart C, Section 85.35, 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

The lack of integration of the contractual procedures established by **The Municipality's** Legal Division and the Program does not comply with the state and federal regulations. In addition, the Program does not have an effective internal control over the documents required in the contract file.

Effect

The lack of internal control and compliance over contract agreement of the Program represent that **The Municipality** is not in compliance with Federal regulations concerning of Procurement. In addition, 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

**The Municipality** should take the necessary actions to require to **The Municipality's** Legal Division the implementation of the provision established in the federal regulation. In addition, the Program should strengthen its internal controls to comply with the checklist that includes all required documents should be included in every procurement file.

Questioned Cost

None

Finding Number 2008-24 (FA) - Sub recipient monitoring (M) (MW)

Condition

We evaluated nine (9) monitoring issued during the fiscal year 2007-2008 and noted the following:

1. In one (1) monitoring, we noted that the cash disbursement test was not performed, therefore the auditor does not evaluated whether the cost of the disbursement were allowed.
2. In one (1) monitoring, we noted that **The Municipality** did not request the audit of financial statement and compliance under OMB Circular A-133.

Criteria

24 CFR Subpart C, Section 85.40 (a), *Monitoring by grantees*. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Housing Authority Administrative Plan for the fiscal year 2007-2008. Monitoring procedures, establish that the current report is intended to describe the monitoring process of sub-recipient receiving CDBG funds through the Department of Housing of **The Municipality** of Ponce. It is composed of a sequence of stages developing a cycle:

5<sup>th</sup> Stage: *Evaluation of evidence submitted, & Follow Up other areas*: Monitoring Objective (7). To verify if subrecipient's funds administration is in reasonable and satisfactory compliance with procedures, by-laws and applicable rules in accordance with the related activity, the Agreement and the following regulation: a. OMB Circular No. A-122 "Cost Principles for Non-Profit Organization", b. 24 CFR Part 45 or OMB Circular No. A-133 "Audits of States, Local Governments & Non-Profit Organizations", c. 24 CFR Part 84 or OMB Circular No. A-110 "Uniform Administrative Requirements for Grants & Agreements with Institutions of Higher Education, Hospitals & other Non-Profit Organizations".

Cause

The Program did not maintain an effective control over the sub-recipient monitoring procedures established by the state and federal regulations.

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

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

Questioned Cost

None

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

Finding Number 2008-25 (FA) - Allowable Costs/Cost Principles (B) (MW)

Condition

We examined forty (40) disbursements and noted the following:

1. One (1) purchase order did not have evidence of the signing of the budget director or authorized representation.
2. One (1) purchase requisition was prepared after the purchase order.
3. Two (2) payments for construction contracts were paid before the period of services provided. **The Municipality** pay the contractor before the completion of the work:
  - Check #547 - \$4,980.23
  - Check #556 - \$6,367.66

Criteria

24 CFR Subpart C, Section 85.20 (b) (2) and (b) (6). *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. *Source documentation*, accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

24 CFR Subpart C, Section 85.21 (g) (3). A Federal agency shall not make payment to grantees for amounts that are withheld by grantees or subgrantees from payment to contractors to assure satisfactory completion of work. Payments shall be made by the Federal agency when the grantees or subgrantees actually disburse the withheld funds to the contractors or to escrow accounts established to assure satisfactory completion of work.

Cause

**The Municipality** is not performing an effective review of the supporting documents of the disbursement and is not carrying out through its policies on internal procedures for purchase requisition, purchase order, and disbursement.

Effect

The lack of effective internal control of the disbursement process 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 and supporting documentation required for the disbursements and should ascertain that they comply with the applicable laws and regulations.

Questioned Cost

\$11,347

Finding Number 2008-26 (FA) - Cash Management (C) (MW)

Condition

In our drawdown test over forty (40) disbursements, we noted the following exceptions:

1. Seven (7) checks prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement.
2. Three (3) checks does not appear in the register control check that is where the Program specifies the date on which they are sent by mail, the date and signature of the person who collected it in person.
3. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance over \$9,500, as follows:
  - August 2007 - \$35,148
  - September 2007- \$53,037
  - January 2008 - \$13,251
  - May 2008- \$11,082
4. Two (2) checks were submitted to the supplier or participant more than fifteen (15) days of the next workday after the funds were deposit in the bank account.

Criteria

24 CFR Subpart C, Section 85.20 (b) (7), *Cash management*. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

24 CFR Subpart K, Section 92.502 (c) (2), HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 days period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).

Cause

This condition was primarily caused by the lack of effective cash management procedures. In addition, **The Municipality** is not recorded in its internal control of the date when the check was collected or sent to the participant or supplier.

Finding Number 2008-26 (FA) - Cash Management (C) (MW), Continue

Effect

Inadequate controls over cash management and HUD requirement could reduce or recapture HOME funds as established by Subpart K, 24 CFR Section 92.500 (d) (1).

Recommendation

**The Municipality** must maintain an effective internal control over who is the Program Official to be responsible for delivering the check in person or by mail and keep track on them. In addition, **The Municipality** should improve the internal control to comply with the time requirements of HUD federal regulation to the time elapsed between the receipts of fund, the request of funds requirement process and the final disbursement for expenditures.

Questioned Cost

None

Finding Number 2008-27 (FA) - Davis Bacon Act (D) (MW)

Condition

We evaluated the only contract of construction (LUCHA CONTRA EL SIDA, INC.) that was in force during the fiscal year 2007-2008, and noted the following:

1. Contract without contract provision for Payment of Prevailing Wages.
2. One (1) payroll certification without evidence that was monitored and evaluated by the payment official examiner.
3. All certification were evaluated on February 8, 2008 by the Official Program as all the certificates were delivered by the contractor on February 6, 2008. The contractor completed the construction and then request for all payments. The project was never inspected by inspectors of the Program. The payments were for \$199,000.
4. **The Municipality** did not perform a monitoring process in the project as stated in the contract clause.
5. All payroll certification do not include the contract number or project number.

Criteria

24 CFR Subpart H, Section 92.354 (a) (1) and (a) (3), Every contract for the construction (rehabilitation or new construction) of housing that includes 12 or more units assisted with HOME funds must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act (40 U.S.C. 276a-276a-5), to all laborers and mechanics employed in the development of any part of the housing. Such contracts must also be subject to the overtime provisions, as applicable, of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-332). Participating jurisdictions, contractors, subcontractors, and other participants must comply with regulations issued under these acts and with other Federal laws and regulations pertaining to labor standards and HUD Handbook 1344.1 (Federal Labor Standards Compliance in Housing and Community Development Programs), as applicable. Participating jurisdictions must require certification as to compliance with the provisions of this section before making any payment under such contract.

Finding Number 2008-27 (FA) - Davis Bacon Act (D) (MW), Continue

Cause

The Program did not maintain an effective control over the Federal Labor Standard Provisions required by regulation.

Effect

Inadequate review procedures regarding to documentation for disbursement and contract provision process may cause that **The Municipality** may agree with contractor that is not in compliance with state and federal law.

Recommendation

**The Municipality** should strengthen its internal control on the revision of payroll certification before proceeding with the payment, and maintaining a regular monitoring of all its contracts to ensure that they comply with all provisions. In addition, there must be an effective communication between management program and the department of inspectors.

Questioned Cost

Not determinable.

Finding Number 2008-28 (FA) - Eligibility (E) (MW)

Condition

In our test over twenty-four (24) participants' files, we noted the following exceptions:

1. Four (4) files examined did not include evidence of income (Certificate of employment or Copy of last two pay stubs).
2. Four (4) files examined did not include evidence of ASUME Certification.
3. Five (5) files examined did not include evidence of Department of Labor Certification.
4. Seven (7) files examined did not have evidence for the verification of assets.
5. Three (3) files examined did not include evidence of Department of Treasury Debt Certification.
6. One (1) file examined did not include Certification of CRIM.
7. In one (1) file examined, we noted that funds were awarded to a participant whose acquisition costs exceed the cost allowed. **The Municipality** may submit only subsidy for acquisition of housing not to exceed \$95,000 according to its internal control and Consolidated Action Plan and the city failed to comply with the regulation because the original cost of housing is \$102,500. The funds given to this participant were \$6,000.
8. In one (1) file examined, we noted that **The Municipality** was not eligible because it did not comply with the income limit table. The participant is shown as extended family (participant, sons, and nephews), however there is no evidence on the file to the legal custody of the nephews. The funds given to this participant were \$40,000.

Criteria

24 CFR Subpart E, Section 92.203 (a), (1). The HOME program has income targeting requirements for the HOME program and for HOME projects. Therefore, the participating jurisdiction must determine each family is income eligible by determining the family's annual income. For families who are tenants in HOME-assisted housing and not receiving HOME tenant-based rental assistance, the participating jurisdiction must initially determine annual income using the method in paragraph (a)(1)(i) of this section. For subsequent income determinations during the period of affordability, the participating jurisdiction may use any one of the following methods in accordance with Sec. 92.252(h): (i) Examine the source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the family. (ii) Obtain from the family a written statement of the amount of the family's annual income and family size, along with a certification that the information is complete and accurate. The certification must state that the family will provide source documents upon request. (iii) Obtain a written statement from the administrator of a government program under which the family receives benefits and which examines each year the annual income of the family. The statement must indicate the tenant's family size and state the amount of the family's annual income; or alternatively, the statement must indicate the current dollar limit for very low- or low-income families for the family size of the tenant and state that the tenant's annual income does not exceed this limit.

24 CFR Subpart K, Section 92.508 (a), General. Each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part.

24 CFR Subpart E, Section 92.201 (b) (1). Each State participating jurisdiction is responsible for distributing HOME funds throughout the State according to the State's assessment of the geographical distribution of the housing needs within the State, as identified in the State's approved consolidated plan. The State must distribute HOME funds to rural areas in amounts that take into account the non-metropolitan share of the State's total population and objective measures of rural housing need, such as poverty and substandard housing, as set forth in the State's approved consolidated plan. To the extent the need is within the boundaries of a participating unit of general local government, the State and the unit of general local government shall coordinate activities to address that need.

24 CFR Subpart A, Section 92.2 (10), Single parent means an individual who:

- (1) Is unmarried or legally separated from a spouse; and
- (2) Has one or more minor children of whom the individual has custody or joint custody, or is pregnant.

Municipality of Ponce, Department of Community Development Action Plan Fiscal Year 2007-2008, Policy of Internal Control for HOME Acquisition Page 2, (III).

Cause

The condition is caused by lack of effective internal monitoring over the eligibility internal control criteria and federal regulation. In addition, the Program Officer needs to maintain in the participant file all documents that support eligibility.

Effect

Inadequate control over eligibility process and participant file documentation may cause that **The Municipality** did not comply with state and federal regulation and HUD could reduce or recapture HOME fund.

Recommendation

**The Municipality's** management should perform and adequate review procedures over HOME Acquisition or Rehabilitation participant file and disbursement to verify if the eligibility internal control established meets with federal program requirements.

Finding Number 2008-28 (FA) - Eligibility (E) (MW), Continue

Questioned Cost

\$46,000

Finding Number 2008-29 (FA) - Equipment and Real Property Management (E) (MW)

Condition

We performed audit procedures to six (6) equipment disbursements, and examined the property subsidiary and the internal control of property, plan and equipment and noted the following:

1. One (1) equipment do not has the serial number in the property subsidiary ledger.
2. The entire samples have the source of funds incorrect in the property subsidiary ledger. The property Subsidiary Ledger indicated that the equipment was purchased with funds from the CDBG Program but the disbursement is funded by the HOME Program and is being used to benefit the HOME Program.
3. In the entire sample we observed that the subsidiary property ledger does not indicate the condition of the equipment and percentage of federal participation in the cost.
4. We noted that the number of tag that is physically in the equipment not correspond for the HOME Program.

Criteria

24 CFR Subpart C, Section 85.32 (d) (1), *Management requirements*. 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.

Cause

**The Municipality** did not maintain an effective internal control over the information recorded in the property subsidiary ledger. The property management internal control is not designed to provide information of property acquired with federal funds as required by federal regulations.

Effect

Incomplete documentation in the record of the subsidiary property can cause error and misuse, loss and/or wrong disposal of equipment purchased with Federal funds which may result in questioned cost.

Recommendation

**The Municipality** must update the information required in the subsidiary property ledger in order to comply with federal regulation. The Program must prepare or buy tag number for all federal program required and ensure that the equipment is registered with the right Program.

Questioned Cost

None

Finding Number 2008-30 (FA) - Procurement and Suspension and Debarment (I) (MW)

Condition

In three (3) contracts procurement process and four (4) purchases order, we tested the compliance and internal control and found the following exceptions:

1. One (1) contract agreement did not include the effective signature date.
2. One (1) contract without evidence of the Policy of the State Insurance Funds.
3. Three (3) contracts without evidence of Certification of Good Standing.
4. One (1) contract without evidence of Certification of Law and Code Contractor and Anticorruption Procedures.
5. Two (2) contracts without evidence of Verification of Employment and Human Resources Debt.
6. One (1) contract without evidence of Payment and Performance Bond and Bid Bond.
7. One (1) contract agreement without clause of Lead Based Paint.
8. One (1) contract agreement without clause of Patent write and copyright.
9. Four (4) purchases order supporting documents did not include evidence of competition process.

Criteria

24 CFR Subpart C, Section 85.36 (a), (b). *States*. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section. *Procurement standards*. (1) 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. (2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

24 CFR Subpart C, Section 85.36 (h). *Bonding requirements*. For construction or facility improvement contracts or subcontracts exceeding the simplified acquisition threshold, the awarding agency may accept the bonding policy and requirements of the grantee or subgrantee provided the awarding agency has made a determination that the awarding agency's interest is adequately protected. If such a determination has not been made, the minimum requirements shall be as follows: (1) A bid guarantee from each bidder equivalent to five percent of the bid price. The "bid guarantee" shall consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of his bid, execute such contractual documents as may be required within the time specified. (2) A performance bond on the part of the contractor for 100 percent of the contract price. A "performance bond" is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract. (3) A payment bond on the part of the contractor for 100 percent of the contract price. A "payment bond" is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract. 24 CFR Subpart C, Section 85.36 (i) (9). Awarding agency requirements and regulations pertaining to copyrights and rights in data.

Finding Number 2008-30 (J'A) - Procurement and Suspension and Debarment (I) (MW), Continue

Criteria

24 CFR Subpart C, Section 85.36 (c), *Competition*. (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 85.36. Some of the situations considered to be restrictive of competition. 24 CFR Subpart C, Section 85.36 (d) (3), *Procurement by competitive proposals*. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids.

24 CFR Subpart H, Section 92.355, Housing assisted with HOME funds is subject to the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. 4821-4846), the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851-4856), and implementing regulations at part 35, subparts A, B, J, K, M and R of this title.

Policy of Internal Control established in the Autonomous Municipality of Ponce Department of Community Development Action Plan Fiscal Year 2007-2008 and Department of Community Development Check List Contract Documents.

Cause

**The Municipality** does not have effective internal control over contract provision and procurement process.

Effect

The lack of internal control over contract agreement and supporting documents of HOME Program represent that **The Municipality** is not in compliance with Federal regulations concerning of Procurement process.

Recommendation

**The Municipality** should strengthen its internal controls in the recruitment process and monitor the officer in charge of preparing and reviewing contracts to ensure that compliance with all state and federal laws.

Questioned Cost

None

Finding Number 2008-31 (E/A) - Accounting Records (L) (MW)

Condition

We evaluate the list of contract that were issued for the fiscal year 2007-08 and belonged to the obligations required by HUD according to the commitment 2006 and noted the following: (a) the commitment transactions recorded in IDIS report (C-04PR27) at July 21, 2008 have difference between the encumbrances reported in the program's accounting records. The program's accounting records present more obligations.

Criteria

24 CFR Subpart C, Section 85.20 (b) (2), Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Finding Number 2008-31 (FA) - Accounting Records (L.) (MW), Continue

Cause

The Program has no effective monitoring review process for the encumbrance posted in the accounting system and over federal grants funds by the program's officers as established by federal regulations. This difference is because **The Municipality** does not reconcile the obligations recorded in the MIP System with the obligations of the Report of IDIS.

Effect

Lack of effective accounting procedures do not allow the effective internal control of the federal funds authorized to **The Municipality**. If the commitments are not in the right way **The Municipality** could be in non compliance and HUD Department could reduce or recapture HOME funds according to the federal regulations.

Recommendation

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

Questioned Cost

None

Finding Number 2008-32 (FA) - Sub-recipient Monitoring (M)

Condition

We evaluated the only two (2) monitoring issued during the fiscal year 2007-08, and noted the following:

1. In one (1) monitoring, we noted that the audit documents are incomplete and does not include some findings presented by monitoring report.

Criteria

24 CFR Subpart K, Section 92.504 (a). Responsibilities. The participating 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 participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.

Housing Authority Administrative Plan for the fiscal year 2007-08. Monitoring Procedures, establish that the current report is intended to describe the monitoring process of sub-recipients receiving HOME funds through the Department of Housing of **The Municipality** of Ponce. It is composed of a sequence of states developing a cycle: 5<sup>th</sup> Stage – Evaluation of evidence submitted, & Follow Up Other Areas – Monitoring Objective.

Cause

The Program did not maintain an effective control over the sub-recipient monitoring procedures established by the state and federal regulations.

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.

Finding Number 2008-32 (FA) - Sub-recipient Monitoring (M), Continue

Recommendation

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

Questioned Cost

None

Finding Number 2008-33 (FA) - Setting Up & Draw Down (N)

Condition

We evaluated thirty (30) drawdown's and noted the following exception:

In the drawdown request number 1454549, we noted that the Officer who approved the drawdown is not authorized by the administration of the Program.

Criteria

24 CFR Subpart K, Section 92.502 (b) (1), *Project set-up*. After the participating jurisdiction executes the HOME Investment Partnership Agreement, submits the applicable banking and security documents, complies with the environmental requirements under 24 CFR part 58 for release of funds and commits funds to a specific local project, the participating jurisdiction may identify (set up) specific investments in the disbursement and information system. Investments that require the set-up of projects in the system are the acquisition, new construction, or rehabilitation of housing, and the provision of tenant-based rental assistance. The participating jurisdiction is required to enter complete project set-up information at the time of project set-up. 24 CFR Subpart K, Section 92.502 (c) (1), *Disbursement of HOME funds*. After complete project set-up information is entered into the disbursement and information system, HOME funds for the project may be drawn down from the United States Treasury account by the participating jurisdiction by electronic funds transfer. The funds will be deposited in the local account of the HOME Investment Trust Fund of the participating jurisdiction within 48 to 72 hours of the disbursement request. Any drawdown of HOME funds from the United States Treasury account is conditioned upon the provision of satisfactory information by the participating jurisdiction about the project or tenant-based rental assistance and compliance with other procedures, as specified by HUD.

Cause

This situation occurred because **The Municipality** did not have an effective internal control over the drawdown set-up when the Program Officer was absent.

Effect

The lack of internal control over drawdown of funds HOME represent that **The Municipality** is not in compliance with regulation concerning of set-up drawdown procedures.

Recommendation

**The Municipality** should improve its internal control procedures over drawdown set-up procedures in order to comply with federal regulations.

Questioned Cost

None

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

Finding Number 2008-34 (FA) - Disbursement Voucher Process (B), (I), (MW)

Condition

We evaluated twenty-three (23) administrative disbursements and noted the following:

1. One (1) voucher of payment did not have evidence of the signing of the account payable official.
2. Two (2) purchases order supporting documents did not include evidence of Competition process.
3. Three (3) contract agreements did not include the effective signature date.

Criteria

24 CFR Subpart C, Section 85.20 (b) (2), (b) (3), (b) (5) and (b) (6). *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. *Internal control*, Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. *Allowable cost*, Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. *Source documentation*, accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

24 CFR Subpart C, Section 85.36 (a), (b), *States*, When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section. *Procurement standards*, (1) 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. (2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

24 CFR Subpart C, Section 85.36 (c), *Competition*. (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 85.36. Some of the situations considered to be restrictive of competition.

Cause

The Program did not maintain an effective control over purchase order, contract, and supporting documents of disbursement voucher.

Effect

The lack of effective internal controls over disbursement and procurement 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 disbursement and procurement and ascertain that comply with the applicable laws and regulations.

Finding Number 2008-34 (FA) - Disbursement Voucher Process (B), (I), (MW), Continue

Questioned Cost

None

Finding Number 2008-35 (FA) - Cash Management (C) (MW)

Condition

1. During our audit of programs' bank reconciliation account number 0101 1030000030 of Section 8 Voucher, we noted that the cash balance shown higher average monthly balance over \$2,950,000. This situation presents potential for excessive federal cash on hand.
2. During the evaluation of the bank reconciliations, we noted that several checks outstanding for more than six months and more than a year. In several months we see that the canceled checks that are forfeited by their life belong to the same person or entity. The Program does not have a monitor over outstanding checks for more than six months.

Criteria

24 CFR Subpart C, Section 85.20 (a) (3) and (a) (7). *Internal control*. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. *Cash management*. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Cause

The Program does not maintain a regular monitoring of the excessive balance in cash and check outstanding for long time.

Effect

This situation could cause reimbursement of funds to the federal agencies correspond of interest earned by maintain excess cash on hand and by request funds that not represent an immediate need.

Recommendation

**The Municipality** should take the effective and necessary action to analyze the real causes of this situation and to improve compliance with federal requirement for cash management regarding payment to tenant and landlord and cash balance.

Questioned Cost

Not Determinable

Finding Number 2008-36 (FA)- Participant Eligibility (E) (MW)

Condition

We have performed an eligibility test for forty (40) participants' files and noted the following exceptions:

1. Six (6) files examined did not comply with the timing requirement to initiate the reexamination verification process.
2. Four (4) files examined did not include evidence of income.
3. Two (2) files examined did not include evidence of Family Department Certification (PAN).
4. Two (2) files examined did not include evidence of Family Child Support (ASUME) Certification.
5. One (1) file examined has the adjusted income of the family calculated incorrectly.
6. One (1) file examined did not include evidence of US Citizenship Declaration Form.
7. Three (3) files examined did not have evidence of Social Security Verification.
8. Eight (8) files examined did not have evidence of Authorization for Release of Information/Privacy Act Notice.
9. In one (1) file examined the certification of child care cost that were considered in the Form 50058 are calculated incorrectly.
10. One (1) file examined did not include evidence of the cost of child care expense.
11. Twenty (20) files examined did not include evidence of Value of Assets verification.
12. Six (6) files examined did not include evidence of Good Behavior Certification for all family members of 18 years old and up.
13. Six (6) files examined did not include evidence of Drug Free Certification.
14. Three (3) files examined did not include HAP Contract or Amendment that applied to the fiscal year audited.
15. One (1) file examined did not include evidence of the Lease of Voucher Tenancy.
16. Ten (10) files examined did not include evidence of utilities invoice and the tenants have utilities allowance.
17. Three (3) files examined have the utilities allowance calculated incorrectly in the contract amendment.
18. In twelve (12) files examined, we noted that the contracts were signed long after the effective date that indicates the annual reexamination (Form 50058) and the effective date of the contract; therefore payments were processed without the contract being completed.
19. Four (4) contracts or amendments did not indicate the utilities allowance however the Program is given subsidy to the tenant.
20. In one (1) file examined the contract does not indicate the negative rent applied according to the Family Report 50058.

Finding Number 2008-36 (FA) - Participant Eligibility (E) (MW), Continue

Condition

21. Two (2) files examined did not include evidence of Marriage or Divorce Certification.
22. Three (30) files examined did not include evidence of Sworn Statement that identified the Social Status, Income, and Property.
23. Three (3) files examined did not include evidence of family members' Birth Certification.
24. Two (2) files examined did not include evidence of Certificate of Study Children.
25. Six (6) files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.
26. Eight (8) files examined did not include evidence of Department of Treasury Debt Certification .
27. Six (6) files examined did not include evidence of Certification of Movable and Immovable Property (CRIM).
28. Eight (8) files examined did not include evidence of Certification of Income Tax Return for the last five years.
29. Six (6) files examined did not include evidence of Credit Information Authorization.
30. Two (2) files examined did not include evidence of Family Photo.

Criteria

24 CFR Subpart B, Section 5.609 established that as a condition of admission or continued occupancy, the tenant must provide necessary information, documentation and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually. (2) The PHA must obtain and document in the tenant file third-party verification of the following factors, or must document in the tenant file why third party verification was not available: (i) Reported family annual income; (ii) The Value of Assets, (iii) Expenses related to deduction from annual income; and (iv) Other factors that affect the determination of adjusted income. 24 CFR Subpart F, Section 5.611, established adjusted income and deduction federal regulation. 24 CFR Subpart E, Section 982.201, *Eligibility and Targeting*. When applicant is eligible: *General*, the PHA may only admit an eligible family to the program. To be eligible, the applicant must be a "family;" must be income-eligible in accordance with paragraph (b) of this section and 24 CFR part 5, subpart F; must be a citizen or a no citizen who has eligible immigration status as determined in accordance with 24 CFR part 5, subpart E. 24 CFR Subpart B, Section 5.230, *Consent by assistance applicants and participants*.

Housing Choice Voucher Program Guidebook, Chapter 12, Section (12.4), *Reexamination Procedures*. The Housing Authority Administrative Plan for the Fiscal Year 2007, Section 3.2, *Eligibility Criteria*, Section 6.4, *Term of the Housing Choice Voucher*, Section 9.0, *Determination of Family Income*, Section 10.0, *Verification*, Section 11.0, *Rent and Housing Payment*, Section 14.0, *Recertification*, Section 17.0, *Termination of the Lease and Contract*.

Cause

The Programs' officers did not maintain organized files and may not have obtained required documentation to validate the participant's eligibility. In addition, **The Municipality** has no effective monitoring review process for the program internal quality control.

Finding Number 2008-36 (FA) - Participant Eligibility (E) (MW), Continue

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 establish strengthen internal supervisory quality controls to monitor performance, ensure compliance with these procedures, and train staff on documentation and verification process.

Questioned Cost

Not Determinable

Finding Number 2008-37 (FA) - Financial Reporting (L) (MW)

In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" versus the accounting records, we noted the following:

1. In the period covered from July 1, 2007 to September 30, 2007 the following items reported certain differences:
  - a. The HAP Voucher Unit
  - b. The "Portability-In" HAP Voucher Unit, for the month of July 2007
  - c. The "Portability In" HAP Voucher Expense
  - d. The Administrative Expenses
2. In the period covered from October 1, 2007 to December 31, 2007 the following items reported certain differences:
  - a. The "Portability Out" HAP Voucher Unit, for the month of December 2007
  - b. The HAP Voucher Unit
  - c. The "Portability Out" HAP Voucher Expense, for the month of December 2007
  - d. The "Fraud Recovery Amount Booked", for the month of November 2007
  - e. The "Portability In" HAP Voucher Expense, for the month of December 2007
3. In the period covered from April 1, 2008 to June 30, 2008 the following items reported certain differences:
  - a. The HAP Voucher Unit
  - b. The HAP Voucher Expense
  - c. The HAP Voucher Expense after the first day of the month, for the month of May 2008
  - d. The "Portability-In" HAP Voucher Unit, for the month of May 2008
  - e. The "Portability-In" HAP Voucher Expense

Finding Number 2008-37 (FA) - Financial Reporting (L) (MW), Continue

Condition

- f. The Administrative Expense , for the months of April 2008 and May 2008

Criteria

Housing Choice Voucher Program Guidebook, Chapter 20 Section 20.12, the purpose of the form HUD-52681 is provides the final calculation of annual contribution for the PHA. The final calculation of annual contribution required is made on this statement, including the determination of actual housing assistance payment, ongoing administrative fees, special fees, audit costs, and if applicable, preliminary fees. The final provision (increase or decrease) to the ACC program reserve is also shown on this statement. During the fiscal year the PHA will have requisitioned payments from HUD based upon estimates of subsidy needed and administrative fees earned. The year end settlement process on the HUD-52681 reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and fees earned. The reconciliation may result in either an overpayment due to HUD or an underpayment due to the PHA. Finally, the HUD-52681 presents the operating income, operating expenditures, and operating reserve of the PHA for the reporting year.

24 CFR Subpart D Section 982.158 (a), established that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms or record-keeping. The must comply with the financial reporting requirement in 24 CFR part 5, subpart K.

Cause

**The Municipality** did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681-B, expenses and unit reported to federal agency versus the data recorded in the accounting record. Also, **The Municipality** deducts from the HAP funds that are recovered by the PHA through fraud recovery actions or by a participant's forfeiture of their FSS escrow account.

Effect

**The Municipality's** reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.

Recommendation

**The Municipality** should take appropriate actions to reconcile in a timely manner the federal finds reports with the accounting records in order to procedure reliable financial data.

Questioned Cost

Not determinable.

Finding Number 2008-38 (FA) - Special Reporting (L and E) (MW)

We have performed compliance test to forty (40) participants' files, family report (HUD Form 50058) and we noted the following situations:

1. Three (3) files examined have incorrect the item 5i "Date of Last Annual HQS Inspection" in HUD's Form 50058.
2. One (1) file examined have incorrect the item 5h "Date of Unit Last Passed HQS Inspection" in HUD's Form 50058.

Finding Number 2008-38 (FA) - Special Reporting (I. and E) (MW). Continue

Condition

3. In six (6) 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) establish that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in CFR part 5, Subpart H. 24 CFR Subpart D Section 982.158 (b), establish that the PHA must furnish to HUD accounts and other record, reports, documents, and information, as required by HUD. For provisions on electronic transmission of required family data, see 24 CFR parts 908. 24 CFR Subpart D Section 982.158 (d), establish that the PHA must prepare a unit inspection report.

24 CFR Subpart K Section 982.516 (f), establish that the PHA must maintain accurate of family income data. The PHA establishes procedures that are appropriate and necessary to assure that income data provided by applicant or participant families is complete and accurate.

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.

Effect

**The Municipality** could be exposed to non compliance with the federal regulation as the result of the data processed in HUD Form-50058, Family Report and could have an effect in the performance on SEMAP report. In addition errors in HUD Form-50058 income may result in incorrect adjusted annual income, total payment, tenant rent, and as a result, will also create incorrect HAP Payment.

Recommendation

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

Questioned Cost

Not Determinable

Finding Number 2008-39 (FA) - Performance Reporting (L)

Condition

According to our audit test, we found that the following indicators are reported incorrectly in the SEMAP Report (Certification HUD-52648):

- Indicator (2b) Reasonable Rent
- Indicator (5) HQS Quality Control Inspection
- Indicator (6) HQS Enforcement

Finding Number 2008-39 (FA) - Performance Reporting (L). Continue

Criteria

24 CFR Subpart A, Section 985.3 (b) (1), *Reasonable Rent*. this indicator shows whether the PHA has and implements a reasonable written method to determine and document for each unit leased that the rent to owner is reasonable based on current rents for comparable unassisted units; at the time of initial leasing; if there is any increase in the rent to owner; and at the HAP contract anniversary. The PHA's method must take into consideration the location, size, type, quality and age of the units, and the amenities, housing services, and maintenance and utilities provided by the owners in determining comparability and the reasonable rent.

24 CFR Subpart A, Section 985.3 (e) (1), *HQS quality control inspections*. This indicator shows whether an PHA supervisor or other qualified person reinspects a sample of units under contract during the PHA fiscal year, which meets the minimum sample size requirements specified at Sec. 985.2 under PHA's quality control sample, for quality control of HQS inspections. The PHA supervisor's reinspected sample is to be drawn from recently completed HQS inspections (i.e., performed during the 3 months preceding reinspection) and is to be drawn to represent a cross section of neighborhoods and the work of a cross section of inspectors. (24 CFR 982.405(b))

24 CFR Subpart A, Section 985.3 (f) (1), *HQS enforcement*. This indicator shows whether, following each HQS inspection of a unit under contract where the unit fails to meet HQS, any cited life-threatening HQS deficiencies are corrected within 24 hours from the inspection and all other cited HQS deficiencies are corrected within no more than 30 calendar days from the inspection or any PHA-approved extension. In addition, if HQS deficiencies are not corrected timely, the indicator shows whether the PHA stops (abates) housing assistance payments beginning no later than the first of the month following the specified correction period or terminates the HAP contract or, for family-caused defects, takes prompt and vigorous action to enforce the family obligations. (24 CFR 982.404)

Cause

**The Municipality** did not consider the entire factor necessary for the determination of reasonable rent, HQS quality control inspection and HQS enforcement.

Effect

If HUD determines that the information submitter in the SEMAP Certification is insufficient for adequate analysis, HUD will not award points under this bonus indicator.

Recommendation

**The Municipality** must revise their internal assessment criteria in their test that affect the reasonable rent, HQS quality control inspection and HQS enforcement for achieving reliable results.

Questioned Cost

None

Finding Number 2008-40 (FA) - Reasonable Rent (N) (MW)

We have performed compliance test to forty (40) participants' files and we noted the following situations:

1. In one (1) file examined, the rental contract that applies to the new admission is over the Rent Reasonableness Certification.
2. Three (3) files examined did not include evidence of the Rent Reasonableness Certification.

Finding Number 2008-40 (IA) - Reasonable Rent (N) (MW), Continue

Condition

3. According to the Fair Market Value for the fiscal year 2007-08, we noted in twenty one (10) files examined that the payment standard was not calculated accordance to the percentage established in the Administrative Plan approved by HUD.

Criteria

24 CFR Subpart B Section 982.54 (d) (15), establish that the PHA Administrative Plan must cover PHA policies on these subjects; the method of determining that the rent to owner is a reasonable rent (initially and during the term of a HPA contract). 24 CFR Subpart D Section 982.158 (f) (7), establish that the PHA must keep the following records to document the basis for PHA determination that rent to owner is a reasonable rent. 24 CFR Subpart K Section 982.507 (2) (i) and (ii), establish that the PHA must determine the reasonable rent: before any increase in the rent to owner; if there is a five percent (5%) decrease in the published FMR in effect sixty (60) days before the contract anniversary (for the unit size rented by the family) as compared with the FMR in effect one (1) year before the contract anniversary. 24 CFR Subpart K Section 982.507 (4), establish that PHA determinate at all times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or predetermined by the PHA.

Housing Administrative Plan for the Fiscal Year 2006 Chapter 11 Section 11.4, establish that the Payment Standard adopted by the Autonomous Municipality of Ponce (AMP) Housing Authority is 110% of the Fair Market Rent that has been approved by HUD and determines the maximum subsidy for a family.

Cause

**The Municipality** has no effective monitoring review process for the FMR schedule applicable and the percentage adopted in the Administrative Plan for the payment standard and calculation to adequately determine the Reasonable Rent procedures during the reexamination process. In addition, the Program do not have an effective review over the documents required in the tenant file and in the evaluation of the Family Report (HUD - Form 50058)

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** establishes review procedures to ascertain that the FMR applicable and the payment standard percentage applicable in the reexamination are computed correctly in accordance with federal regulation.

Questioned Cost

Not Determinable

Finding Number 2008-41 (FA) - Utilities Allowance (N) (MW)

We have performed utilities allowance test to forty (40) participants' files and we noted the following situations:

1. Five (5) files examined have the utilities allowance calculated incorrectly in the Family Report (HUD Form - 50058). **The Municipality** paid \$564 in excess during the fiscal year audited.

Finding Number 2008-41 (FA) - Utilities Allowance (N) (MW), Continue

Condition

2. One (1) file examined has the utilities allowance calculated incorrectly in the HAP contract or amendment.

Criteria

24 CFR Subpart K Section 982.517 (a) (2), (b) (1), (b) (3), (b) (4) and (c) (1) establish the following:

Criteria

- (a) Maintaining Schedule. (2) The PHA must give HUD a copy of the utility allowance schedule. At HUD's request, the PHA also must provide any information or procedures used in preparation of the schedule.
- (b) How allowances are determined. (1) The utilities and 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 utility allowance schedule must be prepared and submitted in accordance with HUD requirements on the form prescribed by HUD. (4) The cost of each utility and housing service category must be stated separately. For each of these categories, the utility allowance schedule must make 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 utilities allowance. (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 that will be paid to the tenants.

Effect

**The Municipality** could be paying an 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

**\$564**

Finding Number 2008-42 (FA) - Housing Quality Standards Inspections (N) (MW)

We performed test the Housing Quality Standard Inspection in forty seven (47) participants' files and we noted the following:

Finding Number 2008-42 (FA) - Housing Quality Standards Inspections (N) (MW), Continue

Condition

1. Twelve (12) files examined did not include evidence of the inspection reports applicable for the fiscal year 2007-2008. **The Municipality** did not comply with the federal regulation that says that at least one inspection should be done every twelve months.
2. In two (2) files examined, the inspection report have wrong the pass date.
3. In two (2) files examined, the inspection report does not indicate the inspector conducting the inspection.
4. In one (1) file examined, the inspection report does not indicate the date of the last inspection.

Criteria

24 CFR Subpart I, Section 982.405, (a) The PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the HQS. (See Sec. 982.305(b)(2) concerning timing of initial inspection by the PHA.) (b) The PHA must conduct supervisory quality control HQS inspections. (c) In scheduling inspections, the PHA must consider complaints and any other information brought to the attention of the PHA. (d) The PHA must notify the owner of defects shown by the inspection. (e) The PHA may not charge the family or owner for initial inspection or re-inspection of the unit.

Cause

Ineffective internal control procedures to ascertain that all tenants' rented units are inspected for HQS at least one annually.

Effect

**The Municipality** may be paying HAP payments for housing units that does not 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 one annually.

Questioned Cost

Not Determinable

Finding Number 2008-43 (FA) - HQS Enforcement (N) (MW)

In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections form HUD-52580; we found the following situations in thirty three (33) participants' files examined:

1. Twelve (12) files examined, we noted that the inspection report does not indicate the final pass date by which each step of the deficiencies (the inspection report is designed to indicate the date).
2. Ten (10) files examined, the inspection report does not have the initials of the Inspector Officer's that certifies the date on which the deficiencies were repaired.

Finding Number 2008-43 (FA) - HQS Enforcement (N) (MW), Continue

Condition

3. In one (1) file examined the inspection unit was considered by the Inspector Officer without deficiencies (pass), however the unit had deficiencies that had to be repaired within the next twenty-four (24) hours from the date of inspection report. The file has no evidence of a re-inspection.
4. In one (1) file examined the inspection report indicates that the unit does not pass inspection, however does not specify which deficiencies were found.
5. Three (3) files examined, the Program does not send to tenant or owner the notification indicating the deficiencies found in the unit and the date of the next re-inspection.
6. Four (4) files examined had no evidence of the notification which was sent to the owner/tenant indicating the date when the last re-inspection.
7. Eighteen (18) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (24 hours or 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.

**Questioned Cost \$5,283**

8. Seven (7) files examined, the inspection report of the unit indicated failed and the files do not have evidence that the owner/tenant were corrected the deficiencies detected. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligation and/or cancellation of contract, within time frame required by federal regulations. The unit was never corrected.

**Questioned Cost \$16,698**

Criteria

24 CFR Subpart I, Section 982.404 (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). (4) The owner is not responsible for a breach of the HQS that is not caused by the owner, and for which the family is responsible (as provided in Sec. 982.404 (b) and Sec. 982.551 (c) ). (However, the PHA may terminate assistance to a family because of HQS breach caused by the family.)

24 CFR Subpart I, Section 982.404 (b), *Family Obligation*. (1) The family is responsible for a breach of the HQS that is caused by any of the following: (2) If a 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 Section 982.552.

24 CFR Subpart I Section 982.405. (a) The PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the HQS. (See Sec. 982.305(b)(2) concerning timing of initial inspection by the PHA.). (b) The PHA

must conduct supervisory quality control HQS inspections. (c) In scheduling inspections, the PHA must consider complaints and any other information brought to the attention of the PHA. (d) The PHA must notify

Finding Number 2008-43 (FA) - HQS Enforcement (N) (MW), Continue

Criteria

the owner of defects shown by the inspection. (e) The PHA may not charge the family or owner for initial inspection or re-inspection of the unit.

Housing Authority Administrative Plan Chapter 12 Section 12.6 (A), *Time Frames and Corrections of HQS Fail Items*. (A) *Correcting HQS Fail Items*. The autonomous Municipality of Ponce (AMP) Housing Authority will schedule a timely inspection to the unit on the date the owner indicates that the receipt of a Request for Tenancy Approval. The owner and participant will be advised to notify the AMP Housing Authority to reschedule a re-inspection when the repairs have been properly completed.

Cause

**The Municipality** did not implement and maintain adequate internal controls to ensure that housing quality inspection enforcement met HUD requirements.

Effect

**The Municipality** made housing assistance payment for units that did not meet housing quality standards that could have an effect in the performance on SEMAP report. Inadequate control over HQS Enforcement and HUD requirement could reduce or recapture Section 8 Voucher funds.

Recommendation

**The Municipality** require the authority to inspect the units that did not meet minimum housing quality standard to verify that the owner and the tenant took appropriate corrective actions to make the unit repairs, if appropriate actions were not taken, **The Municipality** should abate the rents or terminate the housing assistance payment contract. **The Municipality** needs to implement internal controls and perform quality controls which ensure that units are inspected in a timely manner and inspections are accordance with its administrative plan and HUD requirement and should strengthen its monitoring procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.

Questioned Cost

**\$21,981**

Finding Number 2008-44 (FA) - Housing Assistance Payment (N) (MW)

In a sample of forty (40) payments under rental contract, we noted the following:

1. In thirteen (13) payments examined, the HAP contract did not agree with the amount recorded on the HAP register and the amount on line 12 u of the Family Report (HUD-50058). During the audit we noted difference between the amount indicated in the lease and the amount paid to the landlord. **The Municipality** process duplicate rent payment and processed retroactive payment for units that not passing inspection. **The Municipality** process payments that are not allowed by the amount of \$9,727.
2. In two (2) payments examined, we noted difference between the negative rent indicated in the Family Report (HUD-50058) and the negative rent paid to the tenant. **The Municipality** process payments that are not allowed by the amount of \$72.

Finding Number 2008-44 (FA) - Housing Assistance Payment (N), Continue

Criteria

Housing Authority Administrative Plan Chapter 11, *Housing Assistance Payments (HAP) Contracts* Section 14.A, *Payment to Owner, Distribution of Housing Assistance Payment, Stopping the Housing Assistance Payment, Processing Housing Assistance Payments.*

24 CFR Subpart D, Section 982.158. The PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR parts 5, subpart H. 24 CFR Subpart K, Section 982, establish housing assistance payment procedures.

24 CFR Subpart C, Section 85.20, (a) (2), (b) (3) and (b) (5), Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. *Internal control*, Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. *Allowable cost*, Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Cause

**The Municipality** did not maintain effective internal control over the housing assistance payment required by federal regulation. The Program does not maintain a regular monitoring on the monthly rental payments and contracts; in addition, there is no effective supervision over the officer who processes the rental payment report.

Effect

Inadequate review procedures regarding to housing assistance disbursement process may cause that **The Municipality** incurs in cost not allowed, and HUD Department for non compliance could reduce or recapture Section 8 Voucher funds.

Recommendation

**The Municipality** should improve its internal control over the housing assistance payments in order to comply with the laws and federal regulations.

Questioned Cost

**\$9,799**

**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, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

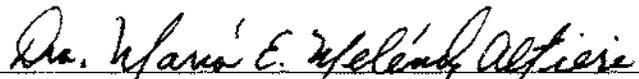
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

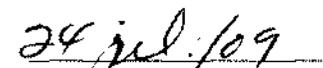
Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-01 (FS)	Operating Deficit of General Fund	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) as required by law.	The Municipality of Ponce continues with the measurements to control the expenditures and to decrease the accumulated deficit.  For the fiscal years 2008-09 and 2009-2010, the operational general fund budget shows the deficit amortization provision for \$100,000. It increases from \$50,000 to \$100,000 in both years.	None	Condition Partially Corrected
2007-02 (FS)	Accounting Management System (MW)	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	The Municipality of Ponce acquired licenses for the installation of SAP-ERP system, to achieve adequate and fairly financial information in the accounting system, regarding capital assets and long term debts.	None	Condition Partially Corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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 Hon. María E. Meléndez Altieri, Mayor

  
 Date

**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, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

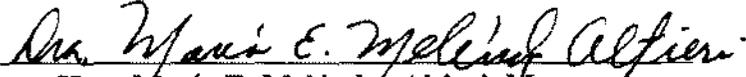
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

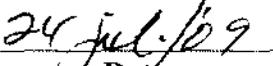
Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		<p>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.</p>	<p>The present Municipality administration is evaluating the acquisition of a new accounting computerized system or an upgrade of the actual system.</p> <p>As an interim measurement the Finance and Budget Director will create a Special Committee composed for the Accounting Office Supervisor, the Director of the Information Systems Division, accountants, and financial consultants, whom will evaluate all the conditions mentioned in this finding and will recommend to the Finance and Budget Director adequate measurements to correct such conditions.</p>		

**I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT**

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 Hon. María E. Meléndez Altieri, Mayor

  
 Date

**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, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

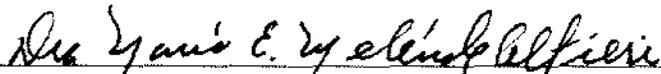
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-03 (FS)	Municipal License tax revenues	We have performed audit procedures to forty-one (41) municipal license tax returns and noted that one (1) taxpayer files were not available for test.	<p>On May 28, 2008, the employee in charge of the files control was instructed by the Finance and Budget Director to prevent this finding.</p> <p>By the other hand, on November 2008, the personnel who works with the review of the tax returns, received a training about their functions.</p> <p>The Finance and Budget Director will implement additional internal control over the custody of tax payers' files.</p> <p>This situation was not repeated on the Single Audit Report for the fiscal year 2007-2008.</p>	None	Condition Partially Corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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 Hon. María E. Meléndez Altieri, Mayor

24 jul. 09  
 Date

**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, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-04 (FS)	Construction Licenses Permits/ Excise Taxes (MW)	<p>We have performed audit procedures to thirteen (13) construction excise taxes files and noted the following exceptions:</p> <ol style="list-style-type: none"> <li>Two (2) files selected 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 recomputed the applicable construction excise taxes calculated by The Municipality.</li> <li>Two (2) auxiliary receipts were not possible traced to official receipt, daily cash collections, deposit slip, and bank statement.</li> </ol>	<p>The Director of the Permits Office will require to the person in charge of the File Unit, that strengthen the internal control to assure that taxpayer files contain all required documents, including the Declaration of Construction Activity, the Construction Permit and the Notice for Requirement of Permits Issued and that maintain adequate measurements over the management and custody of the files.</p> <p>The Municipal Treasurer required to an employee assigned to his unit, that maintain adequate measurements over the management and custody of the Daily Revenues Reports and that assure that all reports contain the corresponding deposit slips, collection receipts and daily collector reports.</p>	None	<p>Partially Corrected</p> <p>Condition Corrected</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri  
 Hon. María E. Meléndez Altieri, Mayor

24 jul. 2009  
 Date

**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**

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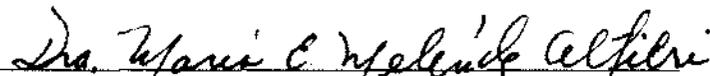
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-05 (FS)	Contract procurement process (MW)	<p>We have performed audit procedures to nine (9) contracts adjudicated during the year four various services with their respective supporting documents and noted the following exceptions:</p> <ol style="list-style-type: none"> <li>1. In two (2) contracts examined the Certification of Funds issued by Budget Department was prepared after the contract was signed, and in two (2) of them, the Certification of Funds has not dated.</li> <li>2. In one (1) contract examined, the clause of no convict of crimes against the government was not included.</li> <li>3. In one (1) contract examined, the clause of no receiving salary payments from other governmental agency was not included.</li> </ol>		None	<p>Condition corrected</p> <p>Condition Corrected</p> <p>Condition Corrected</p>

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-01 (FA) Earmarking (H) (MW)	HEAD START (CFDA No. 93.600)	<p>Pursuant to the final Assistance Award for the budget period from January 1. to December 31, 2006, the approved budget was \$12,163,144 for a client population of 1,752 representing in \$6,942.43 per child. An unobligated balance of federal funds for \$222,828 resulted in Financial Status Report filed for this budget period. The enrollment included in the proposal for this budget period was 1,680 children. However, the active enrollment was 1,634 children.</p> <p>The enrollment deficiency of 46 children caused that the Program received approximately \$96,524 in excess for this budget period.</p>	During the year 2008 the Head Start Program implemented a recruitment process to inform families with eligible children the services provided and to encourage them to apply for admission. During the school year 2008-2009 the Program comply with the enrollment requirement. The Program comply with an enrollment above the 97% of the client population approved to serve.	\$96,524	Condition Still Prevail

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*Dra. María E. Meléndez Altieri*  
 Hon. María E. Meléndez Altieri, Mayor

*24 Jul. 2009*  
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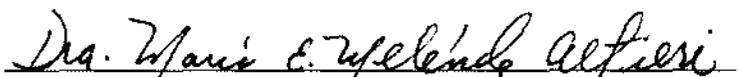
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-02 (FA) Contract provisions (I)	HEAD START (CFDA No. 9360)	We have performed audit procedures to seven (7) contracts and noted that all of them were submitted to the Office of the Controller of Puerto Rico after the required 15 days and did not include the Certification for Suspension and Debarment.	The Finance and Budget Director coordinated with Legal Services Office about the importance to delivers the contracts on time and additional personnel was assigned in this job.  Additional personnel took training in the Office of the Comptroller of Puerto Rico, related to the registration of contract and the computer program established by such office to record all contracts.	None	Condition Partially corrected

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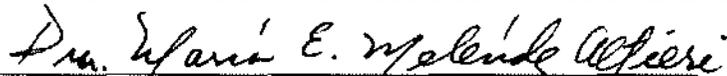
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-03 (FA) Accounting management system (L) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No. 93.914)	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 balance. The financial data is maintained in electronic spreadsheets.	The Program Administration will initiate the process to acquire an accounting system program.	None	Condition Still Prevail

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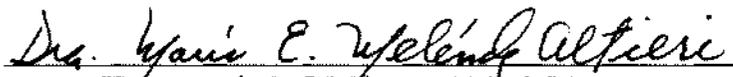
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-04 (FA) Cash management (C) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No. 93.914)	During the fiscal year 2006-07, the monthly bank balance of the checking of the program ranging from \$33,198 to \$126,044 and the books balance ranging from \$25,673 to \$49,538.	The Program have established the corrective actions to prevent this situation	None	Condition Still Prevail
2007-05 (FA) Matching, Level of Effort, Earmarking (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No. 93.914)	The Program prepare a WICY expenditures worksheet to determine the distribution of expenditures and the percentage to be used for providing services to women, infants, children and youth. During our audit, we performed test to this worksheet and noted certain differences between the worksheet and the accounting records.	The Care Ware Program has been implemented and fiscal monitoring has begun. With the Care Ware Program implementation we expect to eliminate or minimize the differences in the WICY report.	Not determinable	Condition Still Prevail

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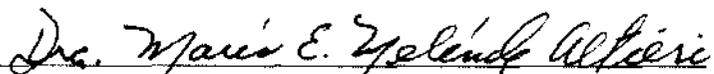
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-06 (FA) Procurement procedures (I)	HIV EMERGENCY RELIEF PROJECT GRANT (CFDA No. 93.914)	We examined eight (8) contracts and noted that they did not include the Bird-Anti Lobbying Certification.	As part of the contract procedure annually celebrated, the program requires to all the participant agencies that deliver the required Bird-Anti Lobbying Certification.	None	Condition Still Prevail
2007-07 (FA) Reporting (L) (MW)	HIV EMERGENCY RELIEF PROJECT GRANT (CFDA No. 93.914)	The following financial and special reports were submitted to the grantor agency after the elapsed time required for submission:  1. <b>Financial Status Report:</b> Submitted on October 15, 2007, three months after the extension period granted. It does not reconcile with the accounting records for \$113,308.		None	Condition corrected

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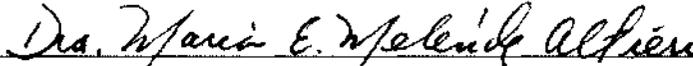
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		2. <b>Annual Progress Report:</b> Submitted August 1, 2007 thirty three 33 days after the due date.			Condition corrected
2007-08 (FA) Sub-recipient monitoring (M) (MW)	HIV EMERGENCY RELIEF PROJECT GRANT (CFDA No. 93.914	We have performed audit procedures to the program monitoring review process, and did not observed evidence that the Program performed fiscal and programmatic monitoring to the services provider financial and accounting records.	At this moment the fiscal Monitor of the Ryan White Program is receiving additional trainings and is under going fiscal monitoring visit to the agencies.  At least one fiscal monitoring will be conducted at every agency.	None	Condition Still Prevail
2007-09 (FA) Contract procurement process (I) (MW)	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA No. 14.218)	In eight (8) contracts tested, we found the following exceptions:  1. One contract without Byrd-Anti-Lobbying Certification (apply to all contract over \$100,000.	<b>The Municipality</b> developed written procedures and forms to assist in the correct contract processing. A list of Certifications and Clauses was developed to be included and incorporated into every applicable contract.	None	Condition corrected

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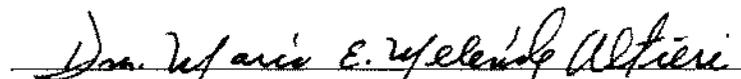
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		2. Eight contracts without evidence of Certification of Suspension and Debarment.			Condition Corrected
		3. Eight contracts without evidence of verified in the Excluded Parties List (EPL)			Condition Partially Corrected
2007-10 (FA) - Cash management (C) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	During our cash management test, we selected fourteen (14) checks for test and noted the following exceptions:  1. Two (2) checks prepared without evidence of pickup or send date by the supplier and participant which avoid corroborate time elapsing payment procedures, according of these we couldn't evaluate cash management compliance requirement.	Instruction will be given to the person in charge of maintain the check register control in the Program about the necessity of record in such register the date when the checks are sent to the supplier or picked up by the supplier. In addition to the employec will be required to verify the checks numerical sequence and when he noted a skip in the sequence, investigate the cause and annotate in the register the check general information, including the cause of such skip.	None	Condition Still Prevail

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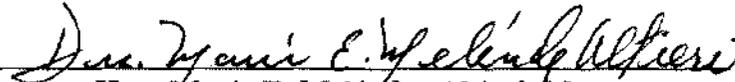
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-11 (FA) – Davis Bacon's Act (D) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	We evaluated the only contract of construction that was in force during the fiscal year 2006-07, and noted the following:	Adequate measurements will be taken to assure that all future construction contract include the Provision for Payment of Prevailing Wages. (Item 1)	None	
		1. Contract without contract provision for Payment of Prevailing Wages.	The Engineering Department will strengthen the internal control over monitoring of payroll certification received by contractors. (Item 2)		Condition Still Prevail
		2. Three (3) payroll certification without evidence that was monitored and evaluated by the payment official examiner.	The Pre-Audit personnel of <b>The Municipality</b> will be oriented about the importance of verify the computations of the construction project certification or invoices amount and assure that all certification included in as supporting documents of the payments includes the required signatures.		Condition Still Prevail
		3. The rate per hour paid by the contractor to a Truck Driver was below the required minimum amount of \$5.30 per hour.			Condition Corrected
		4. One (1) payroll certification without the contractor signature.			Condition Corrected

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 Hon. María E. Meléndez Altieri, Mayor

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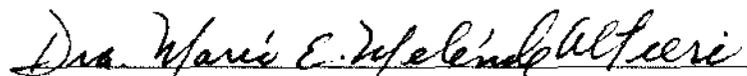
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		for an amount greater than the actual.  b. One (1) contract was obligated by the same amount of \$40,000.00 twice in the accounting system of the program.	posted on the program's accounting system to track possible economies and to assist additional families.		Condition corrected
2007-13 (FA) – Sub recipient Monitoring (M) (MW)	<b>HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)</b>	We evaluated the only monitoring issued during the fiscal year 2006-07, and noted the following:  1. <b>Monitoring Letter:</b> We could not evaluate if the monitoring letter was sent to sub-recipients before 30 calendar days of the first visit of the auditors, since there is no evidence they were visits by the auditor.		None	Condition Corrected

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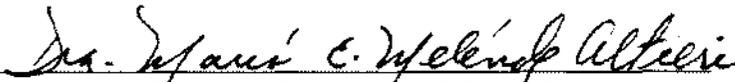
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		2. In the drawdown number 1425064, we noted that the drawdown was approved and authorized by the same officer.	current regulation only requires the person who requests the petition cannot approved it, the tasks are controlled by the access given to the personnel in IDIS System. A local form, Request Voucher for Grant Payment IDIS, was developed and revised to require only personnel authorized in IDIS to process drawdown requests. Department's Director was left for the only purpose of acknowledging the transaction at the end of the process. The payment process, before IDIS is accessed, begins with the Department's Director written authorization.		Condition Partially Corrected

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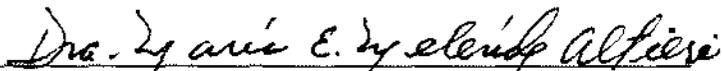
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-15 (FA) – Participant Eligibility (E) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed an eligibility test to forty (40) participants' files and noted the following exceptions:	The Quality Control Unit was restructured to improve the established procedures to evaluate file content and report accuracy.	Not Determinable	
		1. Two (2) files examined did not include evidence of income.	Technical training will be provided to the personnel assigned.		Condition Still prevail
		2. Five (5) files examined did not include evidence of US Citizenship Declaration Form. Eight (8) files examined did not indicate if the family is US or Immigration Citizenship in the Declaration Form.	The Program Director will be aggressive in supervise the use of the checklist entitled "Listado de Cotejo del Reexamen Annual" that is going to be used by housing investigator to ensure the annual reexamination are performed according to regulations section 8.		Condition Still prevail
		3. Nine (9) files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice.	The internal control evaluation over contract will be strengthened to assure		Condition Still prevail

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		4. Three (3) files examined did not include Sworn Statement, which specified that the participant does not have Value of Assets.	that contracts include all benefits to be granted to the participants.		Condition Still prevail
		5. Ten (10) files examined did not include evidence of Drug Free Certification.			Condition Still prevail
		6. Three (3) files examined did not include evidence of Family Department Certification (PAN).			Condition Still prevail
		7. Three (3) files examined did not include evidence of ASUME Certification.			Condition Still prevail
		8. Two (2) files examined did not include HAP Contract that applied to fiscal year 2006 or contract extension applied until June 30, 2007.			Condition Still prevail

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		<p>9. Six (6) HAP Contracts with be issued and signed after the annual reexamination date.</p> <p>10. Four (4) files examined did not indicate in the Housing Choice Voucher Contract complement the Utilities Allowance and one (1) file examined did not include evidence for the utilities expense and the annual examination for the utilities allowance.</p> <p>11. Three (3) files examined did not include evidence of Lease for Voucher Tenancy. Six (6) files examined have the Lease for Voucher Tenancy (issued and signed) after the annual reexamination applied to fiscal year 2006.</p>			<p>Condition Still prevail</p> <p>Condition Still prevail</p> <p>Condition corrected</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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*Hon. María E. Meléndez Altieri*  
\_\_\_\_\_  
Hon. María E. Meléndez Altieri, Mayor

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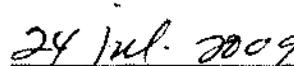
Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		12. One (1) Residential lease and Tenancy Addendum without "Owner" signature.			Condition still prevail
		13. Three (3) files examined did not include evidence of family members' Birth Certificates.			Condition still prevail
		14. One (1) file examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.			Condition still prevail
		15. One (1) file examined did not include evidence of Department of Treasury Debt Certification and three (3) files examined did not include evidence that the participant filled the income tax return for he last five years.			Condition still prevail
		16. Three (3) files examined did not include evidence of family members' Birth Certificates.			Condition still prevail

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

  
Date

**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**

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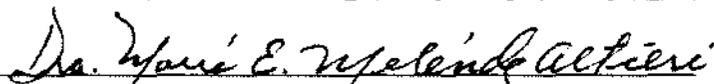
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		17. Four (4) files examined did not comply with the timing requirement to initiate the reexamination verification procedures.			
2007-16 (FA) – Financial Reporting (L) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	In our test over “Voucher for Payment of Annual Contribution and Operation Statement Report” versus accounting records, we noted the following:  1. In the period covered from July 1, 2006 to September 30, 2006 the following items reported certain differences: a. The Voucher Unit b. The HAP Voucher Expenses c. The “Portability Out” HAP Voucher Expense d. The “Portability In” HAP Voucher Expense	A Supervisor will print monthly reports from the software system to verify if any data missing or others discrepancies.  A Supervisor will verify the data in the software system; compare the payments in the system. (findings 1-3)	None	Condition still prevail

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

24 Jul. 2009  
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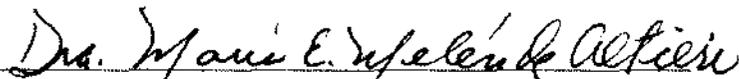
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-17 (FA) – Special Reporting (L and E) (MW)	<b>SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)</b>	<p>We have performed compliance test to forty (40) participants' files and we noted the following situations:</p> <ol style="list-style-type: none"> <li>1. Three (3) files examined without complete items 5h "Date of Last Annual HQC Inspection" and 5i "Unit Inspection Date" in HUD's Form 50058.</li> <li>2. One (1) file examined without complete item 5h "Date of Last Annual HQS Inspection" in HUD's Form 50058.</li> <li>3. In five (5) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</li> </ol>	The Program Supervisor will monitor the family report Form HUD-50058 revising a monthly report that extract information from the information system and matching with documentation in files	Not Determinable	<p>Condition Corrected</p> <p>Condition corrected</p> <p>Condition still prevail</p>

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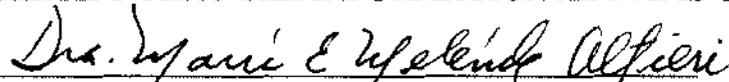
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2007-18 (FA) – Performance Reporting (L)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	During the assessment of Section 8 Management Assessment Program, SEMAP Certification HUD-52648 Report, we noted that the indicator of Reasonable Rent (2b), was incorrect. <b>The Municipality</b> indicated that met at least 98% of the units and according to the audit the indicator had to be 80% to 97% of units' sample.	The Program Director has established a Quality Control Unit and implemented a form entitled "Supervisor Internal Control Evaluation", which will allow evaluate the file content and the reports accuracy.	None	Condition still prevail
2007-19 (FA) – Reasonable Rent (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed compliance test to forty (40) participant's files and we noted the following situations:  1. In two (2) files examined, there was an increase in rent to "Owner" and has no evidence of Reasonable Analysis Certification.	The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.	Not determinable	Condition still prevail

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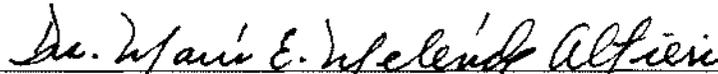
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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-20 (FA) – Utilities allowance (N)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed utilities allowance test to forty (40) participants' files and we noted the following situations:  1. In one (1) file examined the utilities allowance was calculated incorrectly because <b>The Municipality</b> did not use the correct utilities analysis schedule applied to the fiscal year 2007.	The Program Director has established a Quality Control Unit and Implemented a form entitled "Supervisor Internal Control Evaluation", which will allow evaluate the file content and the reports accuracy.	Not Determinable	Condition Still Prevail
2007-21 (FA) – Housing quality standards inspections (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed Housing Quality Standard Inspection test to forty seven (47) participants' files and we noted the following situations:  1. In eleven (11) files examined, there are no evidence of the inspection reports applicable for the fiscal year 2006-07.	The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.  New personnel will be hired for Housing Inspectors	Not Determinable	Condition still prevail

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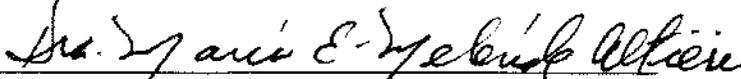
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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			<p>The Inspectors Supervisor will keep control of all failed inspections utilizing the form entitled "HQS Enforcement Log", to follow up and comply with timing of correction according with regulations.</p> <p>HQS Inspection Training was conducted.</p> <p>Acquired mobile inspections tablets and software to facilitate the process of inspections and conducted on time as required.</p>		

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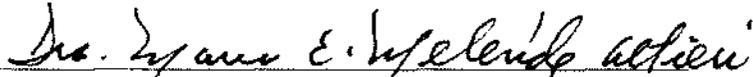
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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2007-22 (FA) – Housing quality standards enforcement (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections Form-52580, we found the following situations in thirty three (33) participants' files examined:  1. Twelve (12) files examined, the inspection for the fiscal year 2006 does not indicate the final date by which each step of the deficiencies found are repair.  2. Four (4) files examined without evidence of Inspector Officer's initials in the inspection report realized for housing units.  3. Four (4) files examined, the inspection report form HUD-52580 is incomplete. has areas that were not inspected and applied to the unit.	The Program Director has established a Quality Unit, hired new personnel and designated a supervisor for the inspectors.  The Program Director also implemented HQS Enforcement logs for the supervisor follow up the fail inspections and Annual HQS Inspections logs for the inspector follow up all inspections according with the month there due. (findings 1-7)	Not Determinable	Condition Still Prevail  Condition Partially Corrected

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		<p>4. Ten (10) files examined, the inspection report the fiscal year 2006-07 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 obligation and/or cancellation of contract, within time frame required by federal regulations.</p> <p>5. Five (5) files examined the inspection report form HUD 52580 indicates that the unit has no electricity and the inspection was considered without shortcomings.</p> <p>6. Eight (8) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and</p>			<p>Condition Partially Corrected</p> <p>Condition corrected</p> <p>Condition Still Prevail</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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*Hon. María E. Meléndez Altieri*  
Hon. María E. Meléndez Altieri, Mayor

*24 jul 2009*  
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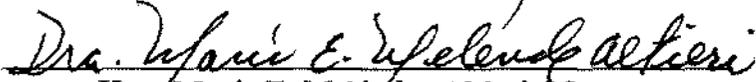
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Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		<p>the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.</p> <p>7. Two (2) notifications sent to the owner were be submitted too late which avoid that the deficiencies will be corrected on the time frame required by the federal regulations.</p>			Condition Still Prevail
2007-23 (FA) – Housing assistance payment (N)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed Housing Assistance payment test to forty (40) participant's files and we noted that in one (1) file examined, the rent payments were not made on behalf of owner indicated that the contract.	Director has implemented a form entitled "Internal Control" which the Housing Investigators Supervisor and Accountants Supervisor will utilize to verify the information from the software system and HAP Contract processed.	Not Determinable	Condition Still Prevail

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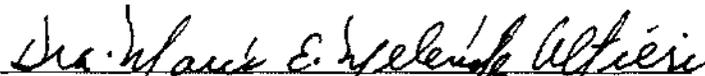
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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
		<p><i>Works of art and historical treasures:</i></p> <p>In the evaluation of the implementation procedures established for financial statements prepared under GASB Number 34, we noted that <b>The Municipality</b> does not have formal procedures established for the use and disposition of works of art and historical treasures.</p>			Condition Corrected
2006-05 (FS)	<b>CONSTRUCTION LICENSES PERMITS/ EXCISE TAXES</b>	<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:</p>		None	Condition Corrected

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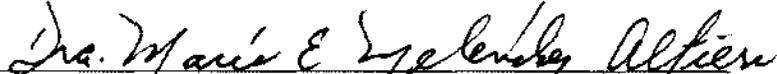
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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
		Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. This condition does not allow the corroboration of construction tax calculated by Municipality's officers.			
2006-08 (FS)	<b>CONTRACT PROCUREMENT PROCESS</b>	<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>		None	Condition Corrected

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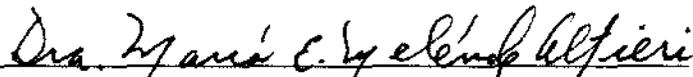
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		2. In seven (50%) contracts, the contracts were filed to the Office of the Controller of Puerto Rico after the 15 days period required.			Condition Corrected
2006-01 (FA) Participant's Eligibility	HEAD START (CFDA No. 93.600)	In eighteen (18) centers examined, the monthly average daily attendance rate was below 85%. 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 Food Program would not be responsible to cover up these payments.	The most common reason for absent in these centers was illness. We will continue to orientate parents in the importance of their children, and reoriented educational staff in strategies that promote fully attendance.	None	Condition Still Prevail

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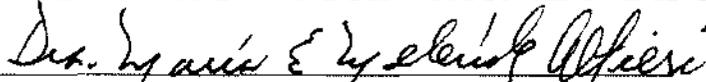
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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
2006-02 (FA) Period of availability of funds	HEAD START (CFDA No. 93.600)	During our test over the liquidation of accounts 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 issued by Region II authorizing those payments.	There were four vouchers paid after March 31, 2006. These suppliers took too long to bring the debt certification to comply with the procurement process. For the next year we are going to ask for waiver to HHS Region II to authorize the payments over the 90 days past the PY.	\$17,819	Condition Still Prevail
2006-04 (FA) Contract provisions	HEAD START (CFDA No. 93.600)	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.		None	Condition Corrected

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2006-08 (FA) Cash management	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	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.	Payments are made as soon as possible. The monthly balance will be reduced to a minimum. Employees were retrained on the importance and need to ensure both date and signature are secured from person receiving the check.	None	Condition Still Prevail
2006-09 (FA) Procurement procedures	HIV EMERGENCY RELIEF PROJECT GRANT (CFDA NO. 93.914)	In our procurement test, we noted the following situations:  1. The Proposal Development Guidelines for Request of Funds does not include the request of federal assurance certifications.	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.	None	Condition Corrected

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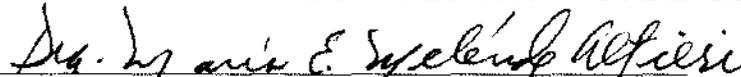
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2006-10 (FA) Reporting	HIV EMERGENCY RELIEF PROJECT GRANT (CFDA No. 93.914)	<p>The following financial and special reports were submitted to the grantor agency after the elapsed time required for submission:</p> <p>1. <b>Financial Status Report:</b> Submitted on October 2, 2006, two months after the waiver extension date July 31, 2006.</p> <p>2. <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).</p>		None	<p>Condition Corrected</p> <p>Condition Corrected</p>

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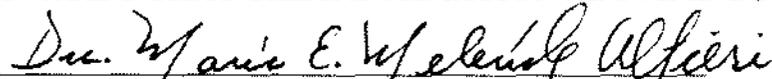
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2006-11 (FA) Sub-recipient monitoring	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	We have performed audit procedures to the program monitoring review process, and noted the following exceptions:  1. We did not observed evidence that the program performed fiscal and programmatic monitoring to the service provider financial and accounting records.	At least one fiscal monitoring will be conducted at every agency.	None	Condition Still Prevail
2006-16 (FA) Cash management	HOME (CFDA No. 14.293)	During our cash management test, we selected thirty-nine (39) checks for test and noted the following exceptions:  1. Checks prepared without evidence of pickup date by the supplier and participant which avoid corroborate time elapsing payment procedures.	Instruction will be given to the person of maintain the check register control in the Program, about the necessity of verify the checks numerical sequence and when he noted a skip in the sequence, investigate the cause and annotate in the register the check general information, including the cause of such skip.	None	Condition Still Prevail

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

24 Jul. 2009  
Date

**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, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

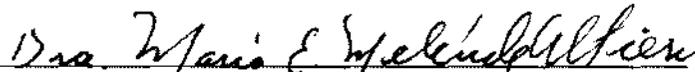
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
		<p>2. The HOME Investment Trust Fund's bank account has a balance of \$453,004 on June 30, 2006 and \$333,774 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.</p> <p>3. 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</p>	<p>The Finance and Budget Director will evaluate the established internal control over the disbursement of program's funds, in order to achieve comply. the federal requirements and avoid held excessive cash balance in the bank account. This evaluation will include verify if the cash balance in the bank contain money request in excess of the necessities and still available for pay out.</p> <p>A letter will be send to the suppliers, in which the Program give them four (4) labor days to pick up the check; and if not then the program will mail the check on the 5<sup>th</sup> day. Also a mailing log will be established to maintain record of the mailing of the</p>		<p>Condition Partially Corrected</p> <p>Condition Corrected</p>

**I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT**

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Hon. María E. Meléndez Altieri, Mayor

29 jul. 2009  
Date

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
 Apartado 331709  
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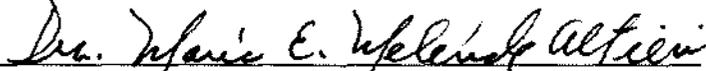
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
			checks. In the case of payments to participants, the program will not request funds until the bank notify the loan closing date.		
2006-18 (FA) Procurement process	HOME (CFDA No. 14.293)	In our test of five (5) contracts, we noted the following exceptions:  1. One (1) contract without contract provision for work hours and safety standards.		None	Condition Corrected
2006-20 (FA) Accounting records	HOME (CFDA No. 14.293)	In our test over the accounting management system, we detected the following exceptions:  1. HOME recaptured fund had not distributed the resources deposited between recapture and program income.	Procedures are in place to maintain over accounting records parallel to IDIS	None	Condition corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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 Hon. María E. Meléndez Altieri, Mayor

24 Jul. 2009  
 Date

**COMMONWEALTH OF PUERTO RICO**  
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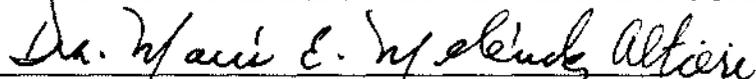
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
		2. The commitment transactions recorded in IDIS report system were not recorded in program's accounting records as encumbrances.			Condition Partially Corrected
		3. 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.			Condition corrected
2006-21 (FA) Sub recipient monitoring	HOME (CFDA No. 14.293)	The Municipality did not perform an effective monitoring process to sub recipient and CHDOs organizations assisted with HOME funds.	Monitoring procedures are being revised by the program to prevent the recurrence of this finding.	No determinable	Condition Partially corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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24 Jul. 2009  
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**COMMONWEALTH OF PUERTO RICO  
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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
2006-22 (FA) Participant Eligibility	SECTION 8 HOUSING CHOICE VOUCHER (CFDA NO. 14.871)	<p>Eligibility:</p> <ol style="list-style-type: none"> <li>File examined did not include Sworn Statements, which specified that the participant does not have Value of Assets.</li> <li>Files examined did not include evidence of Drug Free Certification.</li> <li>File examined did not include evidence of Family Department Certification (PAN).</li> <li>Files examined did not include evidence of ASUME certification.</li> </ol>	<p>The Quality Control Unit was restructured to improve the established procedures to evaluate file content and report accuracy.</p> <p>Technical training will be provided to the personnel assigned.</p> <p>The Program Director will be aggressive in supervise the use of the checklist entitled "Listado de Cotejo del Reexamen Annual" that is going to be used by housing investigator to ensure the annual reexamination are performed according to regulations section 8.</p>	None	<p>Condition Still Prevail</p> <p>Condition Still Prevail</p> <p>Condition Still Prevail</p> <p>Condition Partially Corrected</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

24 July 2009  
Date

**COMMONWEALTH OF PUERTO RICO  
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		5. Files examined did not include evidence of US Citizenship Declaration Form.  6. 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.  7. HAP contract without evidence of contract that applied to fiscal year 2005 or contract extension applied until June 30, 2006.	The internal control evaluation over contract will be strengthened to assure that contracts include all benefits to be granted to the participants.		Condition Partially Corrected  Condition Still Prevail  Condition Still Prevail

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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 Hon. María E. Meléndez Altieri, Mayor

24 jul. 2009  
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		8. Files examined did not include evidence of family members' Birth Certificates.			Condition Partially Corrected
		9. Files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.			Condition Partially Corrected
		10. Files examined did not include evidence of Department of Treasury Debt Certification.			Condition Partially Corrected
		11. Files examined did not include evidence of Department of Treasury Tax Return Debt Certification by last five years.			Condition Partially Corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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*Dra. María E. Meléndez Altieri*

Hon. María E. Meléndez Altieri, Mayor

*24 Jul. 2009*  
Date



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
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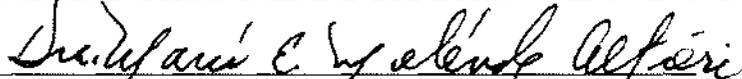
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
2006-24 (EA) Reasonable rent	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	We have performed compliance test to twenty five participants' files and we noted the following situations:  1. In accordance to Fair Market Value Table applicable, the payment standard was calculated incorrectly in HUD Form 50058.	The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.  The Program Supervisor reviews the Administrative Plan and corrected the Payment Standard within 110%.  The Program Supervisor has create a form will evaluate and monitor any increase of rent according with the process established.	Not determinable	Condition Partially Corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

24 Jul. 2009  
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**COMMONWEALTH OF PUERTO RICO  
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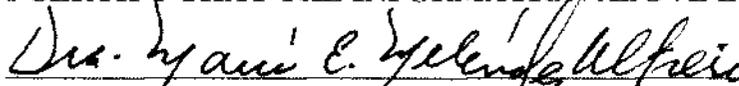
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
2006-25 (FA) Housing quality standards inspection	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	In the participant's files, we did not find evidence of the inspection reports applicable for the fiscal year 2005-06.	The Program Director has restructured the Quality Control Unit (QCU) and designated another personnel, which will review all the files of participants.  New personnel will be hired for Housing Inspectors  The Inspectors Supervisor will keep control of all failed inspections utilizing the form entitled "HQS Enforcement Log", to follow up and comply with timing of correction according with regulations.  Acquired mobile inspections tablets and software to facilitate the process of inspections and conducted on time as required.	Not determinable	Condition Still Prevail

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

24 jul. 2009  
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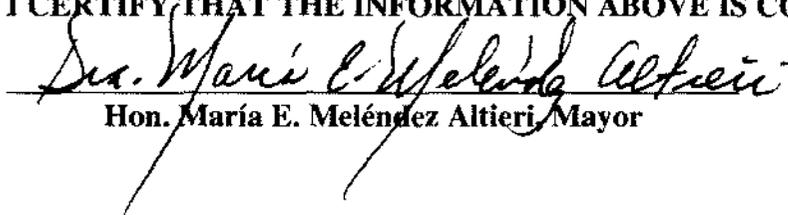
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
2006-26 (FA) Housing quality standards enforcement	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	In testing the Housing Quality Standards Enforcement procedures for failed HQS inspections, we found the following situations in thirty one participant's files examined:		Not determinable	Condition Still Prevail
		<p>1. The correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and the files do not have evidence that the PHA approved time extension waiver and/or cancellation of payment contract.</p> <p>2. In the files examined, the inspection report for the year 2005-06 indicated failed and the files do not have evidence that the units were corrected</p>	<p>Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.</p> <p>New personnel will be hired for Housing Inspectors</p> <p>The Inspectors Supervisor will keep control of all failed inspections utilizing the form entitled "HQS Enforcement Log", to follow up and comply with timing of correction according with regulations.</p>		

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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 Hon. María E. Meléndez Altieri, Mayor

24 jul. 2009  
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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
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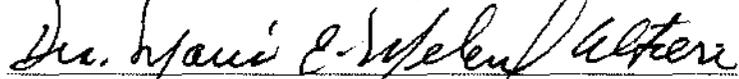
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
		<p>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> <p>3. 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> <p>4. Files examined without evidence of Section 8 Officer's initials in the inspection report realized for housing units.</p>	<p>HQS Inspection Training was conducted during the fiscal year 2008-2009.</p>		<p>Condition Still Prevail</p> <p>Condition Partially Corrected</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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 Hon. María E. Meléndez Altieri, Mayor

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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Finding Number	Finding	Condition	Corrective Actions for Findings not Corrected or Partially Corrected	Questioned Costs	Status
2006-27 (FA) Utilities allowance	<b>SECTION 8 HOUSING CHOICE VOUCHER</b> (CFDA No. 14.817)	In testing compliance procedures for utilities allowance, we found the following situations in twenty participants' files examined:  1. Utilities allowance was calculated incorrectly in accordance to rooms by unit reported on HUD Form 50058.	The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.  The Supervisor of Housing Investigators will evaluate all cases per technical during the fiscal year 2008-2009 utilizing a form entitled "Supervisor Internal Control Evaluation". which monitor performance, ensure compliance with the regulations and reinforce procedures, verify file content and the reports accuracy.	Not determinable	Condition Partially Corrected

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. María E. Meléndez Altieri, Mayor

24 jul. 2009  
Date

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

Apartado 331709  
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**CORRECTIVE ACTION PLAN**

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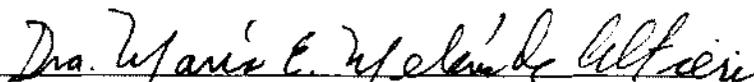
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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><b>PART II - FINANCIAL STATEMENTS FINDINGS SECTION</b></p> <p><i>(All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such.)</i></p> <p><u>Finding number 2008-01 (FS) - Operating Deficit of General Fund</u></p> <p><u>Condition</u></p> <p><b>The Municipality's</b> system of internal control relating to the budgeting function does not provide adequate financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund) as required by Law.</p>	<p>The Municipality of Ponce continues establishing the necessary measurements to control the expenditures and to decrease the accumulated deficit.</p> <p>Beginning July 2009, the municipality implemented the policy of reduced journey, which consist in to reduce to all employees two (2) labor days per month and 5% of reduction in the salaries of Directors. With this measurement the</p> <p>Municipality will obtain saves in payroll expenditures and fringe benefits of 4.5 million dollars approximately.</p>	<p>Partially Corrected</p>	<p>Mrs. María E. Meléndez Altieri, Mayor and Mrs. Ramona Pacheco, Finance and Budget Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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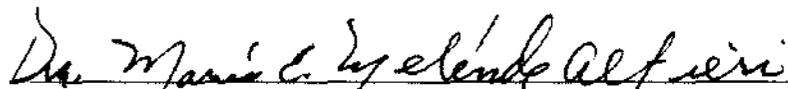
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommend it evaluates the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law. Also, <b>the Municipality's</b> 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.</p>	<p>Also, our Municipality increased the Real and Personal Property tax rate beginning in the fiscal year 2009-2010. This measurement will represent additional resources of 6 million dollars approximately.</p> <p>The Finance and Budget Department has established an aggressive debt collection plan, in order to obtain additional resources of income related to municipal tax licenses, property tax and construction's permits.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding number 2008-02 (FS) – Accounting Management System (MW)</u></p> <p><u>Condition</u></p> <p>During our tests of the financial accounting system of <b>the Municipality</b>, 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.</p>	<p>The Municipality of Ponce acquired license for the installation of SAP-ERP system, to achieve adequate and fairly financial information in the accounting system, regarding capital assets and long term debts.</p> <p>The actual Municipal Administration is evaluating the cost-benefits of acquiring a new accounting computerized system or an upgrade of the actual system.</p>	<p>Still in process</p>	<p>Mr. Carlos Colón, Director of Information System Department and Mrs. Ramona Pacheco, Finance and Budget Director.</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
\_\_\_\_\_  
Hon. María E. Meléndez Altieri, Mayor

24/ jul/08  
\_\_\_\_\_  
Date

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

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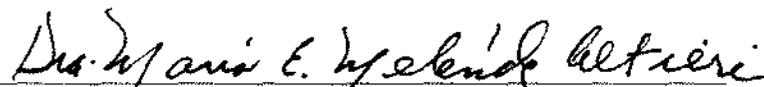
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommend financial trainings to the accountants in charge in the preparation of financial and statistical reports to ascertain that the accounting system comply with legal requirements and governmental accounting pronouncements.</p>	<p>The Finance and Budget Director has restructured the accounting office in order to strengthen the accounting system, facilitate the supervision and to achieve comply with legal requirements and governmental accounting pronouncements. Financial training will be offer to the accountants in charge in the preparation of financial and statistical reports.</p> <p>As an interim measurement the Finance and Budget Director will create a Special Committee composed for the Accounting Office Supervisor, the Director of the Information Systems Department, accountants, and financial consultants, whom will evaluate all the</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/ jul/09  
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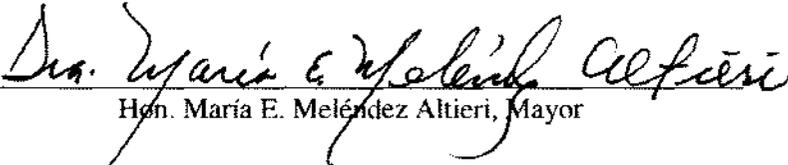
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
	conditions mentioned in this finding and will recommend to the Finance and Budget Director adequate measurements to correct such conditions.			
<p><u>Finding number 2008-03 (FS) – Municipal License Tax Revenues (MW)</u></p> <p><u>Condition</u></p> <p>Municipal license tax revenues of the fiscal year 2008-2009, which were collected in advance from taxpayers between January 1 and June 30, 2008 (known in Spanish as "Patente en Suspenso"), were used by <b>the Municipality</b> to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2008.</p>	<p>We expect that with the implementation of the corrective actions decribed in the finding, the preparation of a cash flows forecasts and projections to anticipate any cash flows shtortages and other measurements that our financial</p>	<p>Partially Corrected</p>	<p>Mrs. María E. Meléndez Altieri, Mayor and Mrs. Ramona Pacheco, Finance and Budget Director</p>	<p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
Date

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

Apartado 331709  
Ponce, Puerto Rico 00733-1709

**CORRECTIVE ACTION PLAN**

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

Audit Period: July 1, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2008-2009, could not be used to pay obligations of the fiscal year 2007-2008 and was not authorized by a municipal ordinance or resolution.</p> <p><u>Recommendation</u></p> <p>We recommend <b>the Municipality</b> to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.</p> <p>We also recommend that annual budgets must be developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for</p>	<p>consultants can recommend us, avoid the use of the license tax revenues collected in advance, in future fiscal years.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Mrs. María E. Meléndez Altieri*  
 \_\_\_\_\_  
 Hon. María E. Meléndez Altieri, Mayor

*24/jul/09*  
 \_\_\_\_\_  
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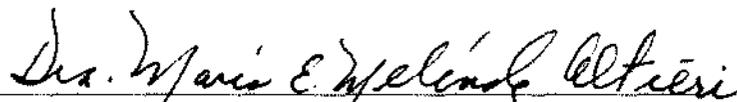
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared. This process must ensure that the operational budget of the general fund is adjusted for uncollected budgeted revenues.				
<p><u>Finding number 2008-04 – Head Start Program</u></p> <p><u>Condition</u></p> <p>In letter dated December 13, 2007, the U.S. Department of Health and Human Services request the return of approximately \$657,000 to the Municipality for disallowable costs incurred. As of the report date, this amount has increased to approximately \$780,000. According to the federal agency, the funds must be from non-federal sources.</p>	<p>The Major wrote a letter to the Federal Program Executives to extend a payment agreement plan. to begin once the Municipality could adjust its financial status from July 1<sup>st</sup>, 2009.</p>	<p>Still in Process</p>	<p>Mrs. María E. Meléndez Mayor and Mrs. Ramona Pacheco, Finance and Budget Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

29 Jul 09  
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**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

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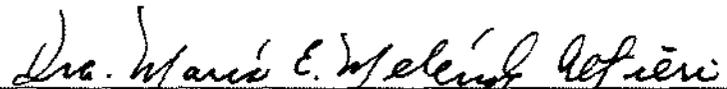
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We strongly recommend that <b>the Municipality</b> return the funds as soon as possible to avoid future interest costs or other reprimand. We also recommend that the Municipality should adopt the necessary internal controls and procedures to ascertain that it is in compliance with these federal requirements, including adopting the necessary procedures to ensure the payment to this federal financially assisted program.</p>				

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 Hon. María E. Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><b>FEDERAL PROGRAM - HEAD START (CFDA No. 93.600)</b></p> <p><u>Finding number 2008-01 (FA) - Allowable Costs/ Costs Principles (B) (MW)</u></p> <p><u>Condition</u></p> <p>We have performed audit procedures to forty (40) voucher and six (6) payroll disbursements and noted the following exceptions:</p> <p>I. In one (1) purchase order, we noted that the officer who signed as Coordinator Buying Officer is the same person who signed as the Budget Director. There was no segregation of duties.</p>	<p>Those duties are adequately segregated. The mentioned case is an isolated case, possibly provoked for absences of personnel authorized to sign the purchase order. The Finance and budget Director will authorize additional persons to approve the purchase order to avoid that this situation been repeated. (Item I)</p>	<p>Partially Corrected</p>	<p>Mrs. Ramona Pacheco, Finance and Budget Director</p>	<p>December 2009</p>

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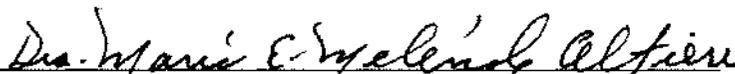
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
2. In one (1) voucher of payment, we noted that the total hours worked that indicates the invoice is incorrect. The Program was paid forty-seven hours and only work forty-five hours. The payment process will be due for \$1,175.00 and should be \$1,125.00. <b>The Municipality</b> paid \$50.00 dollars which were no allowed.	Beginning immediately the program will verify that the stipulated hour and cost in the contracts compare with the hours and cost included in the invoices. The Finance and Budget Director will instruct the pre-audit personnel about the necessity of re-compute the invoice amount, verifying the worked hours and the contract rate per hour. (Item 2)	Partially Corrected	Mrs. Maria A. Ruiz, Program Director	August 2009
3. In two (2) payments of payroll, we noted that the Program will pay the employee less than the amount indicated. The employees worked all labored hours and the program reduce days. When the first working day of the employee is Monday and his contract begins the same day, <b>the Municipality</b> discount Saturday and Sunday before the effective date of the contract. The Program only can deduct the employee working days because they are salaried employees.	The situation mentioned in the item 3 will be evaluated with the Personnel Director in order to determine if a disbursement should be made to the involved employees.	Still in Process	Mrs. Maria A. Ruiz, Program Director	December 2009

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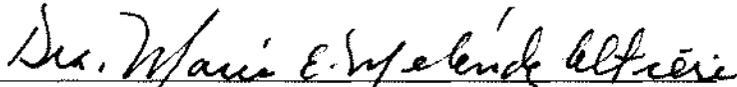
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>4. In nine (9) vouchers the concept of payment indicating in the disbursement is incorrect.</p> <p><u>Recommendation</u></p> <p>The Municipality should evaluate its internal controls over disbursement and establishing written policies on the payroll and ascertain that comply with applicable laws and regulations. We recommended disbursement policies and procedures are developed and implemented to ensure vendor information is accurate and complete. In addition, should follows its internal control to ensure adequate segregation of duties is maintained.</p>	<p>The situation mentioned in the item 4 occurred because the miscellaneous item included rental expense, maintenance and repair expense, staff travel expense, professional services and other material expenditures, wherever the Program have established specific items to each material expenditure, reducing the amount assigned in the miscellaneous item.</p>	<p>Partially Corrected</p>	<p>Mrs. Maria A. Ruiz, Program Director</p>	<p>July 2009</p>

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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding number 2008-02 (FA) - Cash Management (C) (MW)</u></p> <p><u>Condition</u></p> <p>In our drawdown test over forty two (42) disbursements, we noted the following exceptions:</p> <p>1. Two (2) checks does not appear in the register control check that is where the Program specifies the date on which they are sent by mail, the date and signature of the person who collected it in person.</p> <p>2. One (1) check prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement.</p>	<p>Instruction will be given to the person of maintain the check register control in the Program, about the necessity of verify the checks numerical sequence and when he noted a skip in the sequence, investigate the cause and annotate in the register the check general information, including the cause of such skip. (Items 1 and 2)</p>	<p>Partially Corrected</p>	<p>Mr. Narciso Alvarez, Accountant III</p>	<p>July 2009</p>

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*Hon. María E. Meléndez Altieri*  
Hon. María E. Meléndez Altieri, Mayor

*24/jul/09*  
Date

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
3. One (1) check was submitted to the supplier or participant more than three (3) days of the next workday after the funds were deposit in the bank account.	The Program will take adequate measurements to assure that check be submitted to the supplier and participant within the period established by the federal regulation. (Item 3)	Partially Corrected	Mrs. Maria A. Ruiz, Program Director	During Fiscal Year 2009-2010
4. Five (5) cash request did not include the signature of the Officer Program who prepared the request.	Beginning in July 2009, a double check system will be established to the fund request. After the accountant prepare the list of checks received, sum the amount of the checks and sign the list, another accountant will verify the correction of the information. (Items 4, 5 and 6)	Partially Corrected	Mrs. Maria A. Ruiz, Program Director	July 2009
5. Twenty (20) cash request did not include the signature of the Officer Program who verifies the request.				
6. The following request for funding the Program request the incorrect amount. Does not agree the amount of the requests for funding and supporting documents. The Program request more funds that the immediately need:				

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Mrs. María E. Meléndez Altieri*  
 Hon. María E. Meléndez Altieri, Mayor

*24/jul/09*  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<ul style="list-style-type: none"> <li>- Cash Request on October 9, 2007 for \$316,408.51, the correct amount was for \$310,408.52. Funding request in excess for \$6,000.00 was not reconciled in the next request.</li> <li>- Cash Request on July 20, 2007 for \$53,234.09, was duplicated, because had been requested in the cash request made on June 28, 2007 for \$105,716.28. Funding request in excess for \$53,234.09 was not reconciled in the next request.</li> <li>- Cash Request on June 16, 2008 for \$48,934.73 and the correct amount was for \$23,194.73. Funding request in excess for \$25,740.00 was reconciled in the next requests.</li> <li>- Cash Request on June 9, 2008 for \$160,566.17, the correct amount was for \$157,336.17. Funding</li> </ul>				

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*Hon. María E. Meléndez Altieri*  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>request in excess for 3,230.00 was reconciled in the next requests.</p> <p>7. During our audit of program bank reconciliations account number 071-036938, we noted that the cash balance shown higher average monthly cash balance over \$47,400, as follows:</p> <ul style="list-style-type: none"> <li>- July 2007 - \$54,133.01</li> <li>- September 2007 - \$48,291.53</li> <li>- October 2007 - \$60,262.09</li> <li>- November 2007 - \$57,103.73</li> <li>- January 2008 - \$55,346.94</li> <li>- April 2008 - \$283,889.49</li> <li>- May 2008 - \$49,495.61</li> </ul>	<p>The Finance and Budget Director will evaluate the established internal control over the disbursement of program's funds, in order to achieve comply, the federal requirements and avoid held excessive cash balance in the bank account. This evaluation will include verify if the cash balance in the bank contain money request in excess of the necessities and still available for pay out. (Item 7)</p>	<p>Still in Process</p>	<p>Mrs. Maria A. Ruiz, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director</p>	<p>During Fiscal Year 2009-2010</p>

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
8. During our audit of program bank reconciliations account number 071-036938, we noted differences between the book balance and bank reconciliation in the following months:  – May 2008 – June 2008	The difference mentioned in the item (8). occurred because bank errors, which were corrected by the bank.	Partially Corrected	Mrs. Maria A. Ruiz, Program Director	Immediately
<u>Finding Number 2008-03 (FA) - Davis Bacon Act (D) (MW)</u>  <u>Condition</u>  We evaluated the only contract of construction that was in force during the fiscal year 2007-2008, and noted the following:				

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*Mrs. María E. Meléndez Altieri*  
Hon. María E. Meléndez Altieri, Mayor

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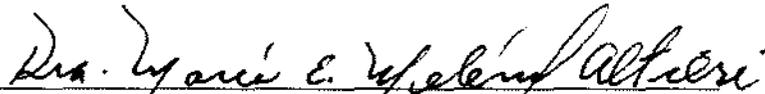
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>1. Four (4) payroll certification without the contractor signature.</p> <p>2. The Program has no evidence of the final inspection of the project which indicates that the work was completed in accordance with the approved.</p> <p>3. Contract without evidence of the Payment of Prevailing Wages Table.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen its internal control on the revision of payroll certification and final project inspection before proceeding with the payment, and maintaining a regular monitoring of all its contracts to ensure they comply with all provisions.</p>	<p>The Program will take adequated measurements to assure that future construction contracts, payroll certifications, and disbursement vouchers includes the signatures, clause and documents mentioned in this finding.</p>	<p>Still in Process</p>	<p>Mrs. Maria A. Ruiz, program Director</p>	<p>During Fiscal Year 2009-2010</p>

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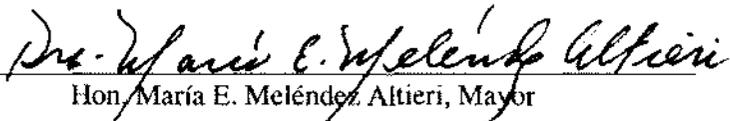
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-04 (FA) - Participants' Eligibility (E) (MW)</u></p> <p><u>Condition</u></p> <p>We have performed eligibility test to forty (40) participants' files and noted the following exceptions:</p> <ol style="list-style-type: none"> <li>1. In five (5) files examined the family composition that indicates the social history was wrong.</li> <li>2. One (1) file examined did not include evidence of Birth Certification.</li> <li>3. One (1) file examined did not include evidence of Social Security Verification.</li> </ol>	<p>A checklist will be implement to assure that the participants' file include all required documents and certifications mentioned in this finding. Also, an Evaluation Sheet will be prepared to the children files.</p> <p>The Program will take appropriate measurements to assure that the Elegibility Verification Form provided by the Federal Program be used.</p> <p>Additional personnel will be assigned to</p>	<p>Still in Process</p>	<p>Mrs. Maria A. Ruiz, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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<p>4. Three (3) files examined did not include evidence of family income.</p> <p>5. Eight (8) files examined did not include evidence of the pay stub that certifies family income.</p> <p>6. Ten (10) files examined did not include evidence of Certification of Income Tax Return for the last five years.</p> <p>7. Five (5) files examined did not include evidence of Family Department Certification (PAN).</p> <p>8. Eight (8) files examined did not include evidence of Certification of Child Support (ASUME).</p> <p>9. Fifteen (15) files examined did not include evidence of Department of Labor Certification.</p>	<p>realize monitories to the participants files. Such monitories will be realize monthly and will be selected at random in the Head Start Centers.</p> <p>The Program will comply with the guidelines established by the Federal Program related to the enrollment elegibility and other guidelines and regulations established, including the Political Declarations contained in the Public Law 110-134-2007 dated December 12, 2007.</p>			

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10. Six (6) files examined did not include evidence of family Social Security Income.  11. Four (4) files examined did not include evidence of the Family Income Certification.  12. Two (2) files examined the certification of income does not indicate the total hours worked, therefore unable to assess the total family income.  13. Eighteen (18) files examined did not include evidence of Supplemental Nutrition Program for Women, Infant and Children (W.I.C.)  14. Eight (8) files examined did not include evidence of utilities invoice showing residential address.				

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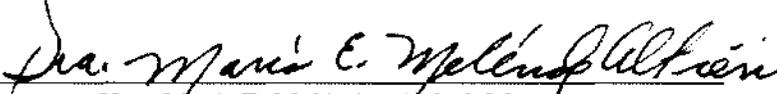
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>15. Nine (9) files examined have the family income calculated incorrectly.</p> <p>16. In two (2) files examined the family did not meet the income limit and the child does not appear in the list of high-income enrollment.</p> <p>17. Six (6) files examined the family compositions that indicate the Certification of Eligibility was wrong.</p> <p>18. One (1) file examined did not include evidence of Certification of Eligibility.</p> <p>19. In one (1) file examined the child was considered of special need and not appears in the list of children with special needs.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date

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

Apartado 331709  
Ponce, Puerto Rico 00733-1709

**CORRECTIVE ACTION PLAN**

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Audit Period: July 1, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mavor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>20. One (1) file examined did not include evidence of Physical Examination that applies to the fiscal year audited.</p> <p>21. In one (1) file examined the physical examination was done late, more than ninety days after the first day of classes.</p> <p>22. One (1) file examined did not include evidence of Dental Examination that applies to the fiscal year audited.</p> <p>23. In one (1) file examined the dental examination was done late, more than ninety days after the first day of classes.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Mrs. María E. Meléndez Altieri*  
Hon. María E. Meléndez Altieri, Mayor

*24/jul/09.*  
Date

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

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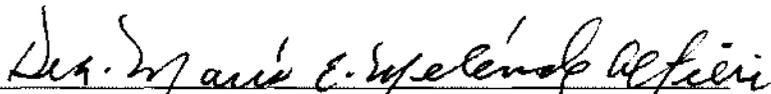
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
24. In five (5) files examined the physical examination and dental examination did not have evidence of the name (signature) of the examiner.  25. Tow (2) files examined had evidence of only one Curriculum Creative Progress Report.  26. Two (2) files examined had evidence of only two Curriculum Creative Progress Report.  27. In one (1) file examined the curriculum creative progress report no has evidence of the signature of the teacher.  28. In one (1) file examined the curriculum creative progress report no has evidence of the family signature.				

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24/jul/09.  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>29. Two (2) files examined did not have evidence of Home Visit.</p> <p>30. Three (3) files examined had evidence of only one Home Visit.</p> <p><u>Recommendation</u></p> <p>We recommend that <b>the Municipality</b> should take the appropriate actions to correct the conditions indicated above to achieve compliance with federal program requirements. In addition, we recommended procedures be strengthened to ensure eligibility process are adequately documented and participant files contain all required information and are adequately.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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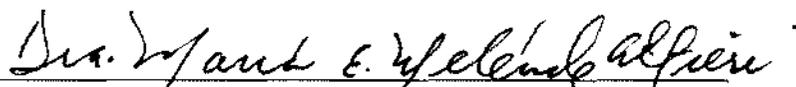
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-05 (FA) - Equipment and Real Property Management (F) (MW)</u></p> <p><u>Condition</u></p> <p>We performed audit procedures to four (4) addition equipment disbursement (over \$5,000.00) during the fiscal year audited, and examined the property subsidiary ledger and the internal control of property, plan and equipment and noted the following:</p> <p>1. One (1) equipment examined was not recorded in the subsidiary property ledger.</p> <p>2. One (1) disbursement did not have evidence of when the Program receipts the merchandise.</p>	<p>The equipment mentioned in the item 1 already was recorded in the subsidiary property ledger with the property number HST 014526.</p> <p>Since February 2009, an internal control was established to require to the person in charge of receive the</p>	<p>Partially Corrected</p>	<p>Mr. Wilfredo Rodriguez, Property Supervisor</p>	<p>July 2008</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
 Date

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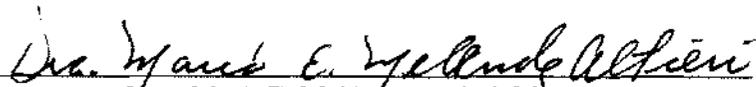
Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>3. Three (3) equipments examined, the subsidiary property ledger did not indicate the serial number.</p> <p>4. One (1) equipment examined, the subsidiary property ledger does not indicate the condition and use of equipment.</p> <p>5. Three (3) equipments examined physically did not have evidence of the tag number.</p>	<p>merchandise, sign the "Purchase Order Blind Sheet" and any Shipment Report provided by the supplier, as evidence of the receive. Those documents should be included among the disbursement voucher documents. (Item 2)</p> <p>The subsidiary property ledger will be modified in order to comply with the federal requirements established for property management. (Items 3 and 4)</p> <p>The equipment mentioned in the item 5. was identified with the required tag number after the audit period.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/Jul/09  
Date

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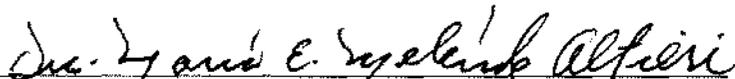
Principal Executive: Hon. María Meléndez Altieri, Mayor

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Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>We performed audit procedures to twenty (20) equipments or material (less than \$5,000.00) of the centers and we noted the following:</p> <p>1. Two (2) equipments examined physically did not appear registered in the subsidiary property ledger.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> must update the information required in the subsidiary property ledger in order to comply with federal regulation. In addition, should establish an effective internal control process to reconcile at least annually the subsidiary ledger of the fixed assets to the general ledger.</p>	<p>The two (2) equipments mentioned in the second part of this finding, which cost was less than \$5,000, will be register in the subsidiary property ledger by the person in charge of such subsidiary.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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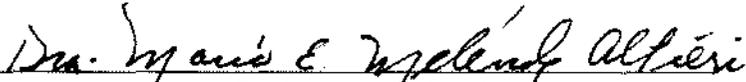
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-06 (FA) - Matching (G) (MW)</u></p> <p>1. We chose two months to evaluate the supporting documents for cash or in-kind local contributions and noted the following:</p> <p>a. In all sample observed differences between the documents to support the volunteer work and the amount recorded in the general ledger.</p> <p>b. In all sample observed differences between the documents to support the other expenses and the amount recorded in the general ledger.</p> <p>2. During the evaluation of cash or in-kind local contribution we noted that the amount recorded as in-kind to the general ledger is wrong, because the</p>	<p>The Program Director will take the necessary measurement to assure the correction of the In-kind supporting documents.</p> <p>The situation mentioned in item (2) occurred because of an error in the established formulas, which did not</p>	<p>Still in Process</p>	<p>Mrs. Maria A. Ruiz, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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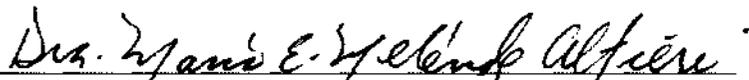
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>supporting documents was not joined properly during the fiscal year audited.</p> <p>3. We noted that the Program registers as in-kind the State Insurance Fund, without having paid the federal funds budgeted in the proposal.</p> <p>4. <b>The Municipality</b> did not comply with the 20% local contribution (In-Kind or Cash) at June 30, 2008, were uncovered \$154,523.11. The Program reported in the accounting record voluntary work cash improperly. This deficit represents a questioned cost of \$618,092.94, but the Federal Agency can recovery the total Federal share.</p>	<p>include all the necessities parameter to determine the In-Kind amount. The formula was corrected.</p> <p>The Program Director will discuss the In-Kind situation with the Finance and Budget Director in order to determine the appropriate corrective action measurement to be implement to avoid the recurrence of the situation mentioned in the item 4..</p>	Partially Corrected	Mrs. Maria A. Ruiz, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director	During Fiscal Year 2009-2010

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
Date

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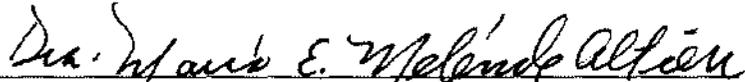
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommend that <b>the Municipality</b> should take the necessary actions to comply with state and federal regulations.</p>				
<p><u>Finding Number 2008-07 (FA) - Earmarking (G) (MW)</u></p> <p><u>Condition</u></p> <p>1. Pursuant to the final Financial Assistance Award for the budget period from January 1, to December 31, 2007, the approved budget was \$11,994,494 for a client population of 1,752, representing in \$6,846.17 per child. An unobligated balance of federal funds for \$278,508 resulted in the Financial Status Report filed for this budget period. The</p>	<p>Beginning in the fiscal year 2009-2010, the Program will establish a more strong control over the enrollment and the children assistance. We expect to comply with the 100% of the enrollment and achieve an assistance rate of at least 98%. Also, an</p>	<p>Partially Corrected</p>	<p>Mrs. Maria A. Ruiz, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
 Date

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

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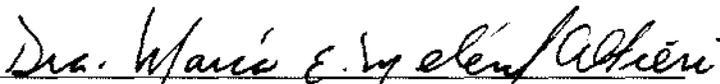
Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>enrollment included in the proposal for this budget period was 1,752 children. However, the active enrollment was 1,633 children. The enrollment deficiency of 119 children caused that the Program received approximately \$536,186.51 in excess for this budget period.</p> <p>2. In nineteen (19) center examined, the monthly average daily attendance rate was below 85%. This situation has the effect of decreasing the Head Start funds for meal payments.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen its procedures to ensure enrollment requirements are met.</p>	<p>colaboration agree was sign with the Pontifical Catholic University of Ponce to offer services five days a week; one more day safter May 2009.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-08 (FA) - Period of Availability of Federal Funds (H) (MW)</u></p> <p><u>Condition</u></p> <p>During our test over forty (40) liquidation of obligation at December 31, 2007, we noted the following exceptions:</p> <p>1. Nine (9) disbursements totaling the amount of \$273,101.32 were paid after 90 days at the close of the grant award. The Program did not receive a waiver letter issued by Region II authorizing those payments.</p>	<p>The Program Director will discuss this situation with the Finance and Budget Director in order to establish adequate measurements to avoid disbursements after 90 days at close of the grant award 2009-2010.</p>	<p>Still in Process</p>	<p>Mrs. Maria A. Ruiz, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director.</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
 Date

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

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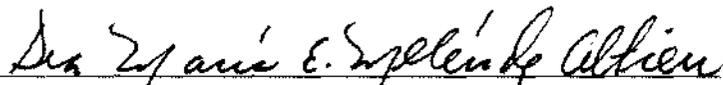
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommend that <b>the Municipality</b> should improve its internal control procedures over the liquidation of accounts payable in order to comply with the law and regulations in force.</p>				
<p><u>Finding Number 2008-09 (FA) - Procurement and Suspension and Debarment (I) (MW)</u></p> <p><u>Condition</u></p> <p>We have performed audit procedures to ten (10) contracts and forty (40) purchase order and noted the following exceptions:</p> <p>1. One (1) contract does not indicate the date of signature.</p>	<p>For all process involving contracts: From August 2009 on, all employees related with contracts, will be trained to prepare, check and comply with all requirements, as federal an state laws require.</p>	<p>Still in Process</p>	<p>Mrs. María A. Ruiz, Head Start Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/Jul/09  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
2. Three (3) contracts without evidence of Department of Treasury Debt Certification. 3. Two (2) contract without evidence of Certification of Movable and Immovable Property (CRIM). 4. Two (2) contract without evidence of Municipal Tax License. 5. Two (2) contract without evidence of Certification of Income Tax Return of the last five years. 6. Four (4) contracts without evidence of Family Child Support (ASUME) Certification. 7. Two (2) contracts without evidence of the Oath Declaration according to Law 428 of August 22, 2004.	A certification indicating the documents to be submitted in a reasonable 20 or 30 workdays.  It will be stated if the contractor do no comply, the contract will be cancelled without penalty for the Program or the Municipality.  <b>The Program</b> will take the necessary actions required in the program's management in order to comply with the Federal and State laws.			

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Hon. María E. Meléndez Altieri*  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/07  
Date

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
8. Four (4) contracts without evidence of the Policy of the State Insurance Funds. 9. Six (6) contracts without evidence of Certification of Good Standing. 10. Six (6) contracts and twelve (12) purchase order examined without evidence of verified in the Excluded Parties List. 11. Five (5) contracts and seven (7) purchase order examined did not include evidence of Competitive process. 12. Four (4) contracts without clause of Child Support. 13. Five (5) contracts without clause of No Discrimination.				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Maria E. Melendez Altieri*  
 Hon. María E. Meléndez Altieri, Mayor

*24/jul/09*  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
14. Ten (10) contracts without clause of Debarment and Suspension.  15. Two (2) contracts without clause of Provision for Termination by grantees for default.  16. Four (4) contracts without clause of Granting Access GAO or other federal agency to books, documents, paper and records.  17. Five (5) contracts without clause of retention of all required records for three years after grantees or sub-grantees make final payments and all other pending matters are closed.				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. María E. Meléndez Altieri  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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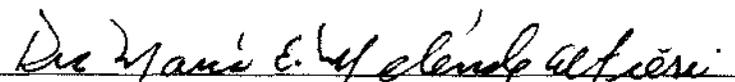
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should take the necessary actions required in the program's management in order to comply with the Federal and State laws. The Program should establish procurement policies and procedures be developed and implemented to ensure competitive process (bid, proposal or quotation) are obtained in accordance with applicable Federal regulations.</p>				
<p><u>Finding Number 2008-10 (FA) - Reporting (L) (MW)</u></p> <p>During the evaluation of the Financial Status Report (FSR-269) funding grant period ended December 31, 2007 and submitted in June 3, 2008, we noted the following:</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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Principal Executive: Hon. María Meléndez Altieri, Mayor

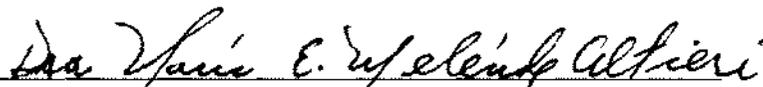
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>1. The total accumulated federal shares reported in the report are incorrect. The Program does not report federal expenditures correspond to training cost (PA-20). The total federal expenditures reported were \$11,715,986 and the correct amount was \$11,774,009, there is a difference of \$58,023.</p> <p>2. Difference between total federal shares of net outlays \$226,781.00 and the accounting records. The total federal shares of the period correspond to unliquidated obligation at December 31, 2007. The program reported unliquidated obligation by \$226,781 and only have accounting evidence of \$96,363.32. The auditor can not evidence whether the difference of \$130,416.68 were obligations made on or before December 31, 2007 and belong to an expense of the budget year 2007.</p>	<p>From now on, accounting employees will prepare reports of obligated expenditures, based in the balance of not paid open orders.</p> <p>The director and its personnel will be taking appropriate actions to reconcile, in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data. There will be assigned an internal control manager to follow up all transactions.</p>	<p>Still in Process</p>	<p>Mrs. María A. Ruiz, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
 Date

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

Apartado 331709  
Ponce, Puerto Rico 00733-1709

**CORRECTIVE ACTION PLAN**

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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>Management should take appropriate actions to reconcile in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data.</p>				
<p><u>Finding Number 2008-11 (FA) - Accounting records (L) (MW)</u></p> <p><u>Condition</u></p> <p>During our test over the accounting management system, we detected the following exceptions:</p> <p>1. The Program is not spending federal funds according to the approved budget in the proposal. According to the evaluation of the proposal 2008.</p>	<p>There has been conversations between the Municipal Fiscal Area and Head Start Program to establish the proper agreements on what should be paid in cash and or/in kind by each part. The Program has determined to pay the</p>	<p>Partially Corrected</p>	<p>Mrs. María A. Ruiz, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Hon. María E. Meléndez Altieri*  
 \_\_\_\_\_  
 Hon. María E. Meléndez Altieri, Mayor

*24 July 09*  
 \_\_\_\_\_  
 Date

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

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Ponce, Puerto Rico 00733-1709

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Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>had a surplus over the State Insurance Fund by \$164,763.70. The Program could not demonstrate evidence that the funds awarded were spent. The Program has no evidence that the federal agency has approved a change in budget. <b>The Municipality</b> has to use the federal funds restricted to the applicable Federal program.</p> <p><u>Recommendation</u></p> <p>Management should take necessary step on the evaluation of the budget and actual expenditures. <b>The Municipality</b> must give financial training to the accountants in charge in the preparation of budget and financial report to ascertain that the accounting system comply with state and federal law. In addition, <b>the Municipality</b> should implement internal procedures to ensure the use of Federal funds is restricted to be applicable Federal program.</p>	<p>federal funds restricted to the applicable Municipal costs or payments.</p>			

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Mrs. María E. Meléndez Altieri*  
 \_\_\_\_\_  
 Hon. María E. Meléndez Altieri, Mayor

*24/jul/09*  
 \_\_\_\_\_  
 Date

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

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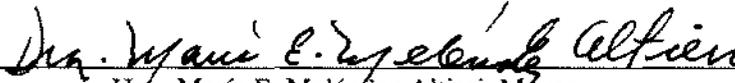
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-12 (FA) - Accounting Management System (L) (MW)</u></p> <p><u>Condition</u></p> <p>We evaluated all notification that receives the Program from the Department of Health &amp; Human Services, Region II (Administration for Children and Families) and noted that <b>the Municipality</b> have a loan debt with the Federal Agency by the amount of \$700,837.35 (principal due \$656.767 and interest due \$44,070.85) that has not been paid at the close of the fiscal year audited (June 30, 2008). During the fiscal year audited we noted that <b>the Municipality</b> did not have this debt recorded in its accounting records and according to the Director of the Program these funds did not appear in their cash accounts.</p>	<p>The Municipality will take the necessaries measurements to record the debt in its accounting records and realize the corresponding payment to the Federal Government.</p> <p>The Major of Ponce wrote a letter to the Federal Program Executives to extend a payment agreement plan, to begin once the Municipality could adjust its financial status from July 1<sup>st</sup>, 2009.</p>	<p>Still in Process</p>	<p>Mrs. Maria E. Melendez, Mayor and Mrs. Ramona Pacheco, Finance and Budget Director</p>	<p>During Fiscal Year 2009-2010</p>

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Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
Date

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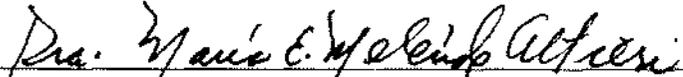
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommended that <b>the Municipality</b> returned the debt loan to the proper Federal agency in the required time.</p>				
<p><u>Finding Number 2008-13 (FA) - Center Licenses, Physical Environmental, Equipment, Material and Facilities (N) (MW)</u></p> <p><u>Condition</u></p> <p>During our test over four centers, we noted the following exceptions:</p> <p>1. Two (2) centers had expired the Firefighter Certificate.</p>	<p>The Program will make the proper arrangements to comply and renew the licenses on time.</p> <p>There is evidence that copies of the</p>	<p>Still in Process</p>	<p>Mrs. Maria A. Ruiz, Head Start Director</p>	<p>During Fiscal Year 2009-2010</p>

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Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>2. <b>Early Home Base Center – Class Room III:</b> The interior door is not closed; lock faulty; the electrical outlets accessible to children did not have resistant covers. <b>Class Room IV:</b> The interior paint is damaged; filtration roof; column of cement in the middle of the classroom is not protective cushions.</p> <p>3. <b>Corral Viejo</b> – Disabled ramp is broken. Classroom door to access the yard is damaged. The bathroom has water pipes exposed to children. Dirty bathroom. The kitchen walls are dirty and have fungus. The kitchen has excrement of rat in cabinets and everywhere. The kitchen has no heater or water distiller in use. The walls of the center are damaged inside and outside and have fungus. The emergency lights do not work. Dirty areas and parts of the floor is cement. Refrigerator</p>	<p>required licences have been sent to each center and there is evidence that are up to date.</p> <p>Correction: The Home Based Center option was removed in 2008.</p> <p>The protective cushion of the column in the Early Head Start center was removed for clean-up.</p> <p>The center has been in continuous remodeling during the months of February through June, 2009.</p> <p>Corral Viejo was going to be closed because of insufficient children, but the non-served children of Guaraguao was recovered to comply the enrollment.</p>			

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*Hon. María E. Meléndez Altieri*

Hon. María E. Meléndez Altieri, Mayor

*24/jul/09.*  
Date

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

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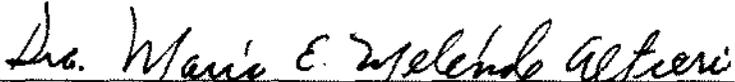
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>oxidized everywhere. Painting interior and exterior deteriorated. Game yard dirty, exposed pipes, roots and rocks dangerous, the ground is not prepared for use by children. The electrical outlets accessible to children did not have resistant covers. Light did not have resistant covers. Light pipe is oxidized. Some windows and grab without write protection. Filtration roof. The center is not in good condition, does not complied with the objective of the Program.</p> <p>4. <b>Magueyes I and II</b> – The center does not have ramps for disabled children in the yard. Not appropriate outdoor space. In the children bathroom the toiled lid is rusted, the bathroom is dirty, without write windows and no has handicapped railings. The master room has broken windows, damaged walls and a ceiling light does</p>	<p>For all Head Start and Early Head Start centers: The Program submitted a proposal requesting funds for program improvements that include safe facilities, outdoor playground surfaces, to replace hazardous supplies and other miscellaneous renovations.</p> <p>The centers have been in remodeling of some areas during 2008.</p> <p>The Program is taking the necessary actions to correct these findings for compliance with federal regulations.</p>			

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Hon. María E. Meléndez Altieri, Mayor

24/jul/09  
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>not work. The food store has cockroaches everywhere. Emergency lights not working. The center "Mayaguez I" did not have smoke detector. Outdoor dirty. In the game yard the trees have comejen, game do not have soft drop, yard dirty, the playground equipment has excrement of pigeon, roots and rocks dangerous, and cement fence is broken. The electrical outlets accessible to children did not have resistant covers. In the center "Mayaguez I" the ceiling fan and the closet is dirty and a ceiling lamp is not working.</p> <p>5. <b>Corral Viejo</b> - The bathrooms are not handicapped railings. The center did not have disabled ramp at the door accessing the playground. Emergency lights not working. Some doors did not indicate the exit sign. Exterior paint deteriorated. The playground equipment is in steel, are oxidized, not have soft drop and the equipment have areas without protection.</p>				

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Hon. María E. Meléndez Altieri*  
Hon. María E. Meléndez Altieri, Mayor

*28/jul/09*  
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**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommended policies and procedures are developed and implemented to ensure the provision of proper maintenance, repair safety and security of all facilities and equipment.</p>				
<p><b>FEDERAL PROGRAM – HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)</b></p> <p><u>Finding Number 2008-14 (FA) - Cash Management (C) (MW)</u></p> <p><u>Condition:</u></p> <p>During our cash management test we noted the following exceptions:</p>				

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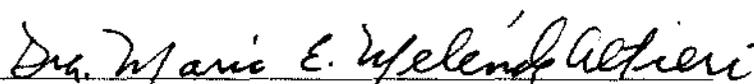
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>1. In our drawdown test over fifteen (15) request, we noted that three (3) checks were submitted to service providers up to five days after the funds were available in the bank account.</p>	<p>A letter was sent to the participant agencies, in which the Ryan White Program give them four (4) labor days to pick up the check; and if not then the program will mail the check on the 5<sup>th</sup> day. Also a mailing log will be established to maintain record of the mailing of the checks. (Item 1)</p>	<p>Partially Corrected</p>	<p>Mrs. Miriam Blanco, Administrative Assistant</p>	<p>During Fiscal Year 2009-2010</p>
<p>2. During our audit of programs' bank reconciliation we noted that the cash balance shown higher average monthly cash balance by approximately \$25,000.</p> <p><u>Recommendation:</u></p> <p><b>The Municipality</b> should take the necessary actions on disburse funds within the time constraints imposed by the federal requirement and avoid held excessive cash balance in bank account.</p>	<p>The Municipality will evaluate the established internal control over the disbursement of program's funds, in order to achieve comply the federal requirements and avoid held excessive cash balance in the bank account. (Item 2).</p>	<p>Still in Process</p>	<p>Mrs. Ramona Pacheco, Finance and Budget Director and Mr. Luis A. Morales, Ryan White Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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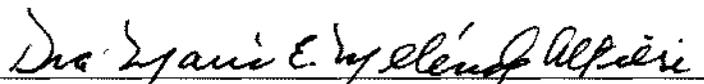
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-15 (FA) - Eligibility (E) (MW)</u></p> <p><u>Condition:</u></p> <p>In our test of seven (7) eligibility agencies, we noted the following exceptions:</p> <p>1. For two service providers, the Municipality did not request the complete Single Audit report which included the "Internal Control over Compliance in Accordance with OMB Circular A-133" report in their respective findings.</p> <p>2. One service provider did not submit the professional certification of personnel who provided direct services to patients.</p>	<p>A checklist of required reports, certifications and other documents was established by the Program to ensure that are submitted with the proposal before signing a contract.</p>	<p>Partially Corrected</p>	<p>Mr. Luis A. Morales, Program Administrator and Mrs. Yessica Rodríguez, Fiscal Monitor</p>	<p>February 2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
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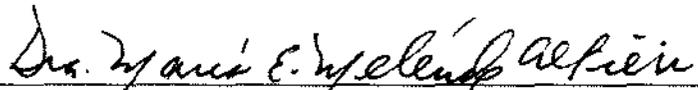
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>3. For one service provider, the Municipality did not request the audit financial statements and compliance under OMB Circular A-133 audited although this provider expend more than \$500,000 in federal awards.</p> <p><u>Recommendation:</u></p> <p>We recommend to the program administration to request audited financial statements and OMB A-133 Single Audit report to service provider sub-recipients and request to include the professional certifications in the Request of Funds Proposal.</p>				

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
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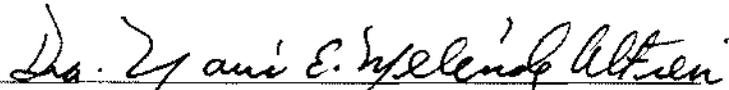
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Finding Number 2008-16 (FA) – Matching, Level of Effort, Earmarking (G) (MW)</u></p> <p><u>Condition</u></p> <p>Our test cost per patient served reflecting differences between expenditures reported in the WICY expenditures worksheet and accounting records. As a result, the percentage reported may not be real.</p> <p><u>Recommendation</u></p> <p>We recommend that the administration of the program exercise greater control over the agencies and service providers to ensure that all submitted the require reports.</p>	<p>The Care Ware Program has been implemented and fiscal monitoring has begun, assuring that differences will be minimized or eliminated.</p>	<p>Partially Corrected</p>	<p>Mr. Luis A. Morales, Program Administrator and Mr. Alexander Alvarado, Program Accountant</p>	<p>December 2009</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
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24/ jul/09  
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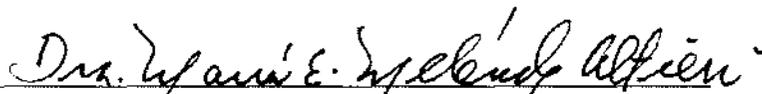
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-17 (FA) – Period of Availability of Federal Funds (H) (MW)</u></p> <p><u>Condition</u></p> <p>The program does not prepare a detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> must prepare a detail specifying all of its obligations which are outstanding at the end of each funding period in this way can be an efficient control on the period of availability of funds.</p>	<p>The Program will prepare a detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period to coincide with the annual Financial Status Report (FSR).</p>	<p>Partially Corrected</p>	<p>Mr. Luis Morales, Program Administrator and Mr. Alexander Alvarado, Program's Accountant</p>	<p>During Fiscal Year 2009-2010</p>

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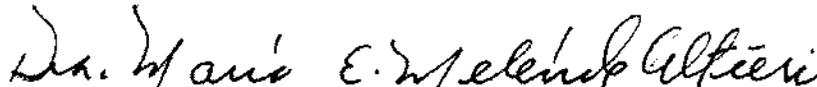
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-18 (FA) – Procurement and Suspension and Debarment (I)</u></p> <p><u>Condition</u></p> <p>In seven (7) contracts tested, we found the following exceptions:</p> <p>1. Six (6) contract examined did not include the Bird-Anti-Lobbying Certification.</p> <p>2. No observed evidence that the Program management request to Provider Agencies compliance with contract clause regarding submission of quarterly expenditures</p>	<p>The Fiscal Monitor following the created assurance checklist will ensure that of Providers comply with the submission of the Bird-Anti Lobbying Certification. (Item 1)</p> <p>A letter was sent to the participant agencies requesting them the submission of quarterly and closing reports 30 days after end of award</p>	<p>Partially Corrected</p> <p>Partially Corrected</p>	<p>Mr. Luis A. Morales, Program Administrator, Mrs. Yessica Rodríguez</p> <p>Mr. Luis A. Morales, Program Administrator</p>	<p>During Fiscal Year 2009-2010</p> <p>During Fiscal Year 2009-2010</p>

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Audit Period: July 1, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

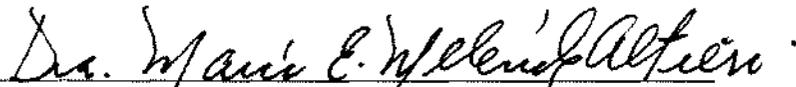
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSIBILITY	TIMETABLE
<p>reports and close out report 30 days after end of award period.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> must establish an internal control to ensure that the agencies service providers comply with all contract provisions required by Federal and State regulations.</p>	<p>period. The Fiscal Monitor will follow up such process (Item 2)</p>			
<p><u>Finding Number 2008-19 (FA) – Reporting (L)</u></p> <p><u>Conditions</u></p> <p>The Women, Infants, Children, and Youth (WICY) Report was submitted to the grantor agency after the elapsed time required for submission. The report was submitted on June 24, 2008, twenty six (26) days after the due date.</p>	<p>The Program administration took corrective actions to prevent the situation.</p>	<p>Partially Corrected</p>	<p>Mr. Luis A. Morales, Program Administrator and Mr. Alexander Alvarado Program's Accountant</p>	<p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
 Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709  
Ponce, Puerto Rico 00733-1709

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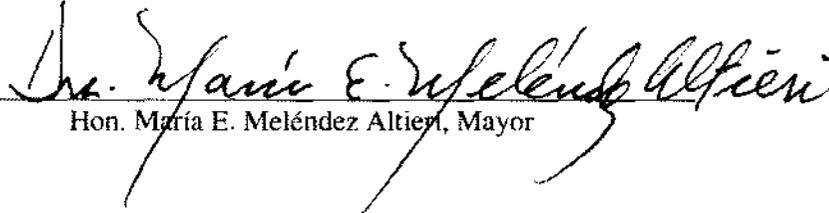
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendations</u></p> <p>The Municipality should ascertain that comply with the terms and conditions established in the Notice of Grant Award.</p>				
<p><u>Finding Number 2008-20 (FA) - Sub-Recipient Monitoring (M) (MW)</u></p> <p><u>Condition:</u></p> <p>The Program did not perform fiscal monitoring to the service provider financial and accounting record.</p> <p><u>Recommendation:</u></p> <p>The Municipality should establish adequate procedures to perform fiscal and programmatic sub-recipient monitories, including the adequate training of personnel assigned to monitoring functions.</p>	<p>The Fiscal Monitor started the fiscal monitoring of the agencies, which will be an ongoing process.</p>	<p>Partially Corrected</p>	<p>Mr. Luis A. Morales, Program Administrator And Mrs. Yessica Rodríguez, Fiscal Monitor</p>	<p>During Fiscal Year 2009-2010</p>

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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><b>FEDERAL PROGRAM – COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT (CFDA No. 14.218)</b></p> <p><u>Finding Number 2008-21 (FA) - Cash Management (C) (MW)</u></p> <p><u>Condition</u></p> <p>In our drawdown test over eighteen (18) cash funds requested, we noted the following exceptions:</p> <p>1. Two (2) checks prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement.</p>	<p>The Program Director will require to the person in charge to maintain the register of checks send or picked up for suppliers that assure him to include the date of pick up or send in the register. (Item 1)</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola. Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Hon. María E. Meléndez Altieri*  
 \_\_\_\_\_  
 Hon. María E. Meléndez Altieri, Mayor

*24 Jul 09.*  
 \_\_\_\_\_  
 Date

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

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Ponce, Puerto Rico 00733-1709

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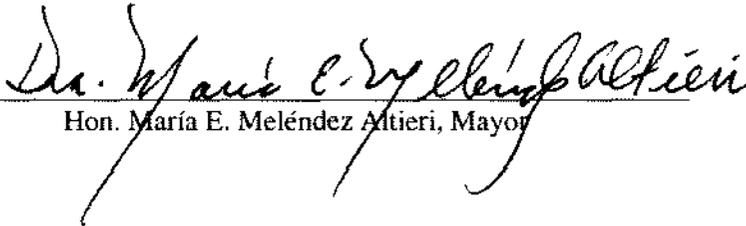
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>2. One (1) check was submitted to the supplier more than five (5) days of the next workday after the funds were deposited in the bank account.</p> <p>3. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance by approximately \$22,900.00 in the following month:</p> <ul style="list-style-type: none"> <li>- September 2007</li> <li>- February 2008</li> <li>- March 2008</li> <li>- April 2008</li> <li>- May 2008</li> </ul> <p><u>Recommendation</u></p> <p>The Municipality should improve the internal control to comply with the time requirements of federal regulation to the time elapsed between the receipts of funds, the request of funds requirement process, the final disbursement for expenditures and cash balance.</p>	<p>Appropriate internal controls measurements will be evaluate and establish by the Finance and Budget Director in coordination with the Program Director to assure that all check be submitted to the suppliers within the five (5) days since the funds are deposited in the bank account and to achieve minimize the average monthly cash balance. (Items 2 and 3)</p>	<p>Still in Process</p>	<p>Mr. Ramona Pacheco, Finance and Budget Director and Mrs. Oded Pola, Program Director.</p>	<p>During Fiscal Year 2009-2010</p>

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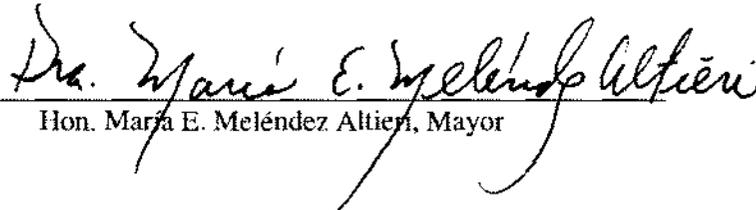
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-22 (FA) - Equipment and Real Property Management (F)</u></p> <p><u>Condition</u></p> <p>We performed audit procedures to eight (8) equipment disbursement, and examined the property subsidiary ledger and the internal control of property, plant and equipment and noted the following:</p> <p>1. In the entire sample we observed that the subsidiary ledger (inventory) does not indicate the custody of the equipment and the condition of the property.</p>	<p>A new sheet to register all of the equipment has been designed in order to comply with all of the federal regulation requirements related to property management.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge H. Colón Martínez, Officer in charge of the Property Register.</p>	<p>Implemented on July 2009</p>

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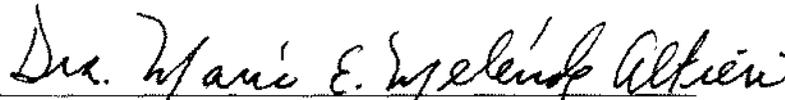
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The recordkeeping procedures should be strengthened in order to assure compliance with applicable federal regulations regarding equipment.</p>				
<p><u>Finding Number 2008-23 (FA) - Procurement and Suspension and Debarment (I) (MW)</u></p> <p><u>Condition</u></p> <p>In seven (7) contracts procurement process we tested the compliance and internal control and found the following exceptions:</p>				

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Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
1. One (1) contract without evidence of Certificate of Incorporation. 2. Two (2) contracts without evidence of Corporate Resolution. 3. One (1) contract without evidence of the Policy of the State Insurance Funds. 4. One (1) contract without evidence of Certification of Good Standing. 5. One (1) contract without evidence of verified in the Excluded Parties List. 6. One (1) contract without clause of termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement.	Adequate coordination will be established between the Finance and Budget Director, the Program Director and the Legal services Office in order to assure that situations mentioned in this finding are corrected.	Still in Process	Mrs. Odette Pola, Program Director, Mrs. Ramona Pacheco, Finance and Budget Director and Carmen J. Torres, Director of the Legal Services Office.	During Fiscal Year 2009-2010

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*Hon. María E. Meléndez Altieri*  
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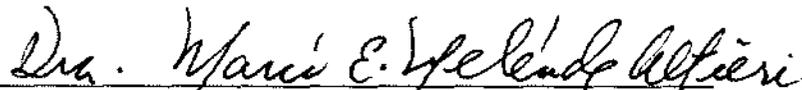
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>7. One (1) contract without clause of compliance with Section 103 and 107 of the Contract Work Hours and Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations.</p> <p>8. One (1) contract without clause of Notice of awarding agency requirements and regulations pertaining to reporting.</p> <p>9. One (1) contract without clause of Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should take the necessary actions to require to <b>the Municipality's</b> Legal Division the implementation of the provision established in the</p>				

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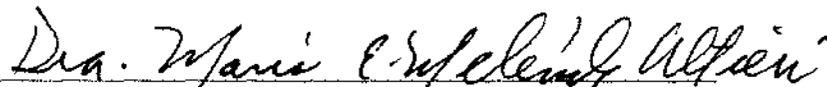
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
federal regulation. In addition, the Program should strengthen its internal controls to comply with the checklist that includes all required documents should be included in every procurement file.				
<p><u>Finding Number 2008-24 (FA) - Sub recipient monitoring (M) (MW)</u></p> <p><u>Condition</u></p> <p>We evaluated nine (9) monitoring issued during the fiscal year 2007-2008 and noted the following:</p> <p>1. In one (1) monitoring, we noted that the cash disbursement test was not performed, therefore the auditor does not evaluated whether the cost of the disbursement were allowed.</p>	The Program is in process of reviewing the monitoring test worksheet to prevent the recurrence of the item (1).	Still in Process	Mrs. Odette Pola, Program Director, and the Program Monitor	During Fiscal Year 2009-2010

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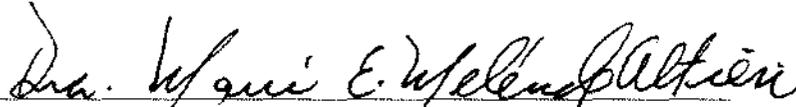
Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>2. In one (1) monitoring, we noted that the Municipality did not request the audit of financial statement and compliance under OMB Circular A-133.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen its monitoring procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.</p>	<p>A control sheet will be implemented to follow up the institution financial statements.</p>			

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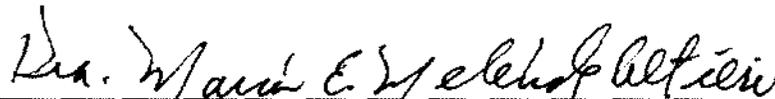
Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><b>FEDERAL PROGRAM – HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA #14.239)</b></p> <p><u>Finding Number 2008-25 (FA) - Allowable Costs/Cost Principles (B) (MW)</u></p> <p><u>Condition</u></p> <p>We examined forty (40) disbursements and noted the following:</p> <p>1. One (1) purchase order did not have evidence of the signing of the budget director or authorized representation.</p> <p>2. One (1) purchase requisition was prepared after the purchase order.</p>	<p>The internal control has been strengthened to avoid repeat this situation.</p> <p>Instructions has been given to the Budget Officials to assure that all purchase order be issued after the purchase requisition.</p>	<p>Partially Corrected</p>	<p>Mrs. Ramona Pacheco, Finance and Budget Director and Mrs. Carmen M. Velázquez, Accounting Supervisor</p>	<p>During Fiscal Year 2009-2010</p>

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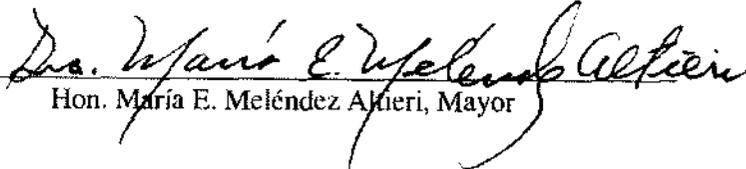
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>3. Two (2) payments for construction contracts were paid before the period of services provided. <b>The Municipality</b> pay the contractor before the completion of the work:</p> <ul style="list-style-type: none"> <li>- Check #547 - \$4,980.23</li> <li>- Check #556 - \$6,367.66</li> </ul> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should evaluate its internal controls and supporting documentation required for the disbursements and should ascertain that they comply with the applicable laws and regulations.</p>	<p>The Program Director will be aggressive in the supervision of the Fiscal Unit to assure that only accept for payment, invoices or certifications charging work already performed.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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\_\_\_\_\_  
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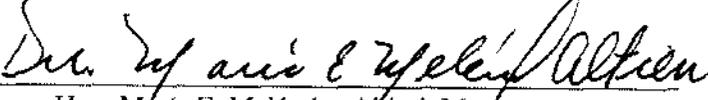
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-26 (FA) - Cash Management (C) (MW)</u></p> <p>In our drawdown test over forty (40) disbursements, we noted the following exceptions:</p> <ol style="list-style-type: none"> <li>Seven (7) checks prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement.</li> <li>Three (3) checks does not appear in the register control check that is where the Program specifies the date on which they are sent by mail, the date and signature of the person who collected it in person.</li> </ol>	<p>Instruction will be given to the person of maintain the check register control in the Program, about the necessity of verify the checks numerical sequence and when he noted a skip in the sequence, investigate the cause and annotate in the register the check general information, including the cause of such skip. (Items 1 and 2)</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director.</p>	<p>During Fiscal Year 2009-2010</p>

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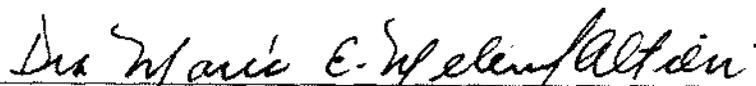
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>3. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance over \$9,500, as follows:</p> <ul style="list-style-type: none"> <li>- August 2007 - \$35,148</li> <li>- September 2007- \$53,037</li> <li>- January 2008 - \$13,251</li> <li>- May 2008- \$11,082</li> </ul>	<p>The Finance and Budget Director will evaluate the established internal control over the disbursement of program's funds, in order to achieve comply, the federal requirements and avoid held excessive cash balance in the bank account. This evaluation will include verify if the cash balance in the bank contain money request in excess of the necessities and still available for pay out. (Item 3)</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director and Mr. Osvaldo R. Maldonado, Accountant IV, Fiscal Unit Supervisor</p>	<p>During Fiscal Year 2009-2010</p>
<p>4. Two (2) checks were submitted to the supplier or participant more than fifteen (15) days of the next workday after the funds were deposit in the bank account.</p>	<p>A letter will be send to the suppliers, in which the Program give them four (4) labor days to pick up the check; and if not then the program will mail the check on the 5<sup>th</sup> day. Also a mailing log will be established to maintain record of the mailing of the checks. In the case of</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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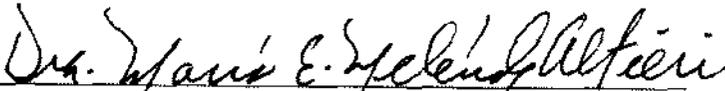
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p><b>The Municipality</b> must maintain an effective internal control over who is the Program Official to be responsible for delivering the check in person or by mail and keep track on them. In addition, <b>the Municipality</b> should improve the internal control to comply with the time requirements of HUD federal regulation to the time elapsed between the receipts of fund, the request of funds requirement process and the final disbursement for expenditures.</p>	<p>payments to participants, the program will not request funds until the bank notify the loan closing date. (Item 4)</p>			

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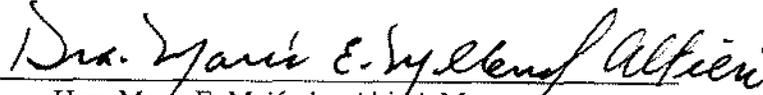
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-27 (FA) - Davis Bacon Act (D) (MW)</u></p> <p><u>Condition</u></p> <p>We evaluated the only contract of construction (LUCHA CONTRA EL SIDA, INC.) that was in force during the fiscal year 2007-2008, and noted the following:</p> <p>1. Contract without contract provision for Payment of Prevailing Wages.</p> <p>2. One (1) payroll certification without evidence that was monitored and evaluated by the payment official examiner.</p>	<p>Adequate measurements will be taken to assure that all future construction contract include the Provision for Payment of Prevailing Wages. (Item 1)</p> <p>The Engineering Department will strengthen the internal control over monitoring of payroll certification received by contractors. (Item 2)</p>	<p>Still in Process</p> <p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director</p> <p>Supervisor of the Program Engineering Department</p>	<p>During fiscal Year 2009-2010</p> <p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
\_\_\_\_\_  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
\_\_\_\_\_  
Date

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

Apartado 331709  
Ponce, Puerto Rico 00733-1709

**CORRECTIVE ACTION PLAN**

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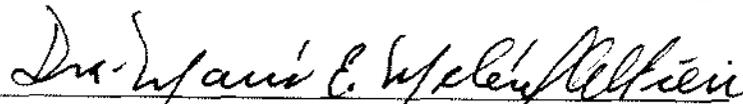
Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>3. All certification were evaluated on February 8, 2008 by the Official Program as all the certificates were delivered by the contractor on February 6, 2008. The contractor completed the construction and then request for all payments. The project was never inspected by inspectors of the Program. The payments were for \$199,000 dollars.</p> <p>4. <b>The Municipality</b> did not monitor in the project as stated in the contract clause.</p> <p>5. All payroll certification do not indicate the contract number or project number.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen its internal control on the revision of payroll certification before</p>	<p>The situations mentioned in the items (3), (4) and (5) arise because the Engineering Department had not knowledge about the project. The responsible personnel will be orientated about the importance of notify all projects to the Engineering Department.</p> <p>The Pre-Audit personnel of the Municipality will be oriented about the importance of does not authorize for payment, construction project certification or invoices which are not signed by the project inspector certifying that the work was realize in conformity to the specifications.</p>	Partially Corrected	Mrs. Odette Pola, Program Director and Mrs. Ramonita Pacheco, Finance and Budget Director	During Fiscal Year 2009-2010

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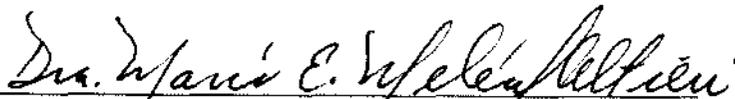
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
proceeding with the payment, and maintaining a regular monitoring of all its contracts to ensure they comply with all provisions. In addition, there must be an effective communication between management program and the department of inspectors.				
<p><u>Finding Number 2008-28 (FA) - Eligibility (E) (MW)</u></p> <p><u>Condition</u></p> <p>In our test over twenty-four (24) participants' files, we noted the following exceptions:</p> <p>I. Four (4) files examined did not include evidence of income (Certificate of employment or Copy of last two pay stubs).</p>	The Program Director notified to the Program Officer in charge of evaluate cases, that should maintain evidence in the participant file related to all	Partially Corrected	Maria Del C. Rodríguez. Program Case Coordinator	During Fiscal Year 2009-2010

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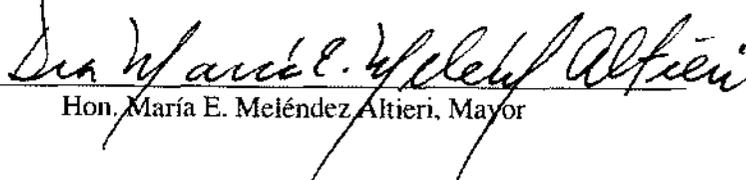
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>2. Four (4) files examined did not include evidence of ASUME Certification.</p> <p>3. Five (5) files examined did not include evidence of Department of Labor Certification.</p> <p>4. Seven (7) files examined did not have evidence for the verification of assets.</p> <p>5. Three (3) files examined did not include evidence of Department of Treasury Debt Certification.</p> <p>6. One (1) file examined did not include Certification of CRIM.</p> <p>7. In one (1) file examined, we noted that funds were awarded to a participant whose acquisition costs exceed the cost allowed. <b>The Municipality</b> may</p>	<p>documents required during the eligibility procedure. Items (1), (2), (3), (4), (5) and (6)</p> <p>The program will take the appropriate corrective action to assure that funds awarded to the participants do not e</p>	<p>Still in Process</p>	<p>Mrs. Odette Pola, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

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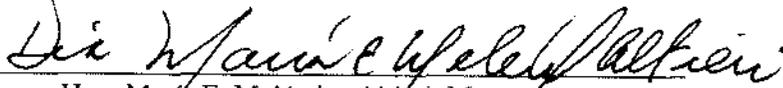
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>submit only subsidy for acquisition of housing not to exceed \$95,000 according to its internal control and Consolidated Action Plan and the city failed to comply with the regulation because the original cost of housing is \$102,500. The funds given to this participant were \$6,000.</p> <p>8. In one (1) file examined, we noted that the <b>Municipality</b> was not eligible because it did not comply with the income limit table. The participant is shown as extended family (participant, sons, and nephews), however there is no evidence on the file to the legal custody of the nephews. The funds given to this participant were \$40,000.</p>	<p>exceed the cost allowed. (Item 7).</p> <p>The Program Director oriented to the Administrative Officer in charge of approving the eligibility of an applicant about the importance of make a very cautious evaluation of each application. (Item 8)</p>	<p>Partially Corrected</p>	<p>Mrs. María del C. Rodríguez Jiménez. Administrative Officer</p>	<p>During Fiscal Year 2009-2010</p>

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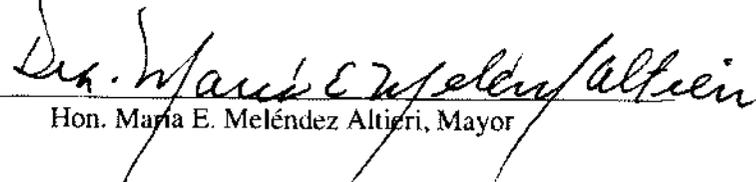
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality's management should perform and adequate review procedures over HOME Acquisition or Rehabilitation participant file and disbursement to verify if the eligibility internal control established meets with federal program requirements.</p>				
<p><u>Finding Number 2008-29 (FA) - Equipment and Real Property Management (E) (MW)</u></p> <p><u>Condition</u></p> <p>We performed audit procedures to six (6) equipment disbursements, and examined the property subsidiary and the internal control of property, plan and equipment and noted the following:</p>				

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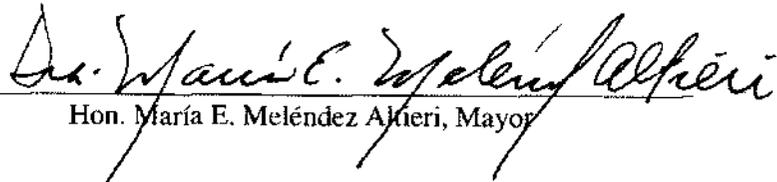
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>1. One (1) equipment does not have the serial number in the property subsidiary ledger.</p> <p>2. The entire samples have the source of funds incorrect in the property subsidiary ledger. The property Subsidiary Ledger indicated that the equipment was purchased with funds from the CDBG Program but the disbursement was funded by the HOME Program and is being used to benefit the HOME Program.</p> <p>3. In the entire sample we observed that the subsidiary property ledger does not indicate the condition of the equipment and percentage of federal participation in the cost.</p> <p>4. We noted that the number of tag that is physically in the equipment not correspond for the HOME Program.</p>	<p>A new sheet will be implemented for registering the equipments and comply the requirements of federal regulations. (Items 1,(2 and 3).</p> <p>Tags for the various federal programs are to be designed showing the program name. (Item 4).</p>	Partially Corrected	Mr. Jorge H. Colón Martínez, Officer in charge of the Property Register,	During Fiscal Year 2009-2010

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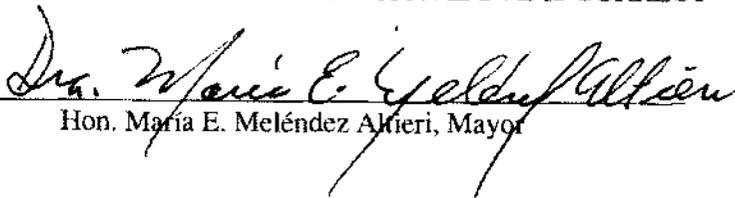
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality must update the information required in the subsidiary property ledger in order to comply with federal regulation. The Program must prepare or buy tag number for all federal program required and ensure that the equipment is registered with the right Program.</p>				
<p><u>Finding Number 2008-30 (FA) - Procurement and Suspension and Debarment (I) (MW)</u></p> <p><u>Condition</u></p> <p>In three (3) contracts procurement process and four (4) purchases order, we tested the compliance and internal control and found the following exceptions:</p>				

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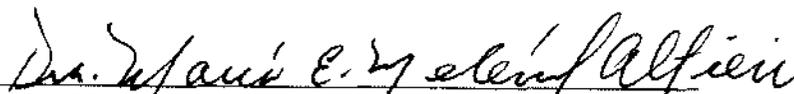
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
1. One (1) contract agreement did not include the effective signature date. 2. One (1) contract without evidence of the Policy of the State Insurance Funds. 3. Three (3) contracts without evidence of Certification of Good Standing. 4. One (1) contract without evidence of Certification of Law and Code Contractor and Anticorruption Procedures. 5. Two (2) contracts without evidence of Verification of Employment and Human Resources Debt. 6. One (1) contract without evidence of Payment and Performance Bond and Bid Bond.	The Office of Legal Services will establish adequate internal control to assure that the documents or clauses required by state and federal regulations been included in contracts provision and supporting documents. (Items 1 to 8)	Partially Corrected	Mrs. Carmen J. Torres, Director of the Legal Services Office	During Fiscal Year 2009-2010

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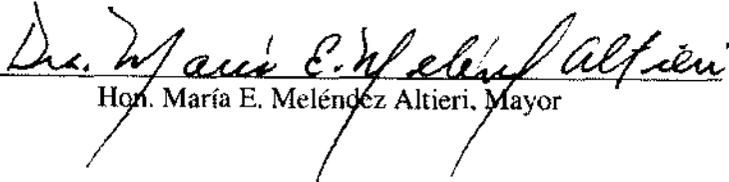
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>7. One (1) contract agreement without clause of Lead Based Paint.</p> <p>8. One (1) contract agreement without clause of Patent Right and Copy Right.</p> <p>9. Four (4) purchases order supporting documents did not include evidence of Competitive Process.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen its internal controls in the recruitment process and monitor the officer in charge of preparing and reviewing contracts to ensure that compliance with all state and federal laws.</p>	<p>The internal control will be strengthened to assure that the purchase order supporting documents include those documents related with the competitive process (Quotations, Bids or Proposals, which apply) (Item 9)</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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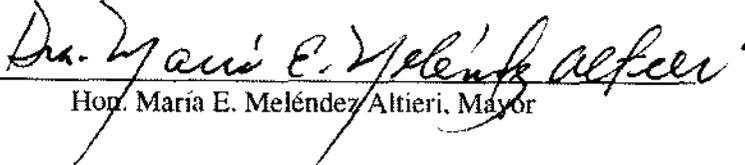
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-31 (FA) - Accounting Records (L) (MW)</u></p> <p><u>Condition</u></p> <p>We evaluate the list of contract that were issued for the fiscal year 2007-08 and belonged to the obligations required by HUD according to the commitment 2006 and noted the following: (a) the commitment transactions recorded in IDIS report (C-04PR27) at July 21, 2008 have difference between the encumbrances reported in the program's accounting records. The program's accounting records present more obligations.</p>	<p>Two (2) reports have been created in the MIP System to be used as evidence when encumbrances, commitments or activities funding in IDIS are increased or decreased. In addition, a monitoring process will be established to compare the encumbrances shown in the MIP System (Accounting System) and such information shown in the IDIS Report.</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director</p>	<p>December 2009</p>

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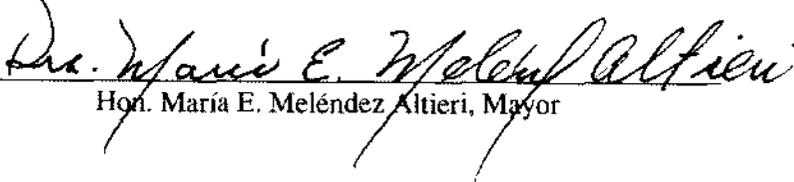
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should improve the accounting system procedures for compliance with the standards required by the federal regulations.</p>				
<p><u>Finding Number 2008-32 (FA) - Sub-recipient Monitoring (M)</u></p> <p><u>Condition</u></p> <p>We evaluated the only two (2) monitoring issued during the fiscal year 2007-08, and noted the following:</p> <p>1. In one (1) monitoring, we noted that the audit documents are incomplete and did not indicate some findings presented by Monitoring Report.</p>	<p>Monitoring procedures are being revised by the program to prevent the recurrence of this finding.</p>	<p>Partially corrected</p>	<p>Mrs. Odette Pola, Program Director and Program Monitor</p>	<p>During Fiscal Year 2009-2010</p>

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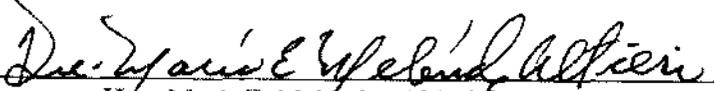
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should strengthen its monitoring procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.</p>				
<p><u>Finding Number 2008-33 (FA) - Setting Up &amp; Draw Down (N)</u></p> <p><u>Condition</u></p> <p>We evaluated thirty (30) drawdown's and noted the following exception:</p> <p>In the drawdown request number 1454549, we noted that the Officer who approved the drawdown is not authorized by the administration of the Program.</p>	<p>The Executive Director of the Municipal Housing Department neither approves nor authorizes the request for funds. The signature of said Officer signifies that he/she has been informed of the creation and approval of the request for funds via</p>	<p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director</p>	<p>December 2009</p>

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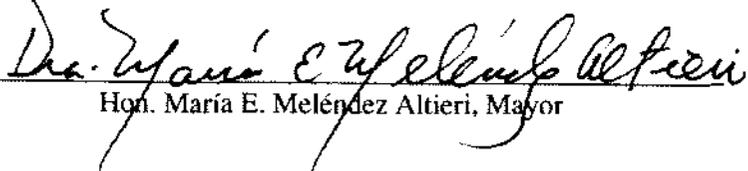
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p><b>The Municipality</b> should improve its internal control procedures over drawdown set-up procedures in order to comply with federal regulations.</p>	<p>IDIS. Only two (2) employees other than the Director are authorized to create and approve request for funds. This finding is because of redaction error of the letter of internal control redacted by the former Director. The internal control over the set up of draw downs will be modified to comply with the federal regulation.</p>			

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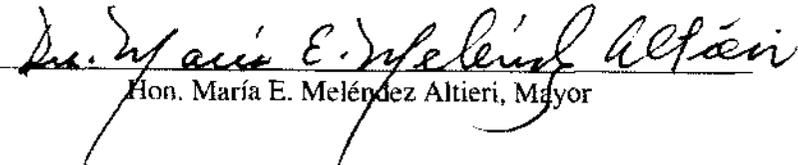
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><b>FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)</b></p> <p><u>Finding Number 2008-34 (FA) - Disbursement Voucher Process (B), (I), (MW)</u></p> <p><u>Condition</u></p> <p>We evaluated twenty-three (23) administrative disbursements and noted the following:</p> <p>1. One (1) voucher of payment did not have evidence of the signing of the account payable official.</p> <p>2. Two (2) purchases order supporting documents did not include evidence of Competition process.</p>	<p>The Finance and Budget Director will take adequate corrective action to strengthen the internal controls in the pre-intervention and contract areas. Among this measurements are to revise the current pre-intervention process and to update the checklist used in the process.</p>	<p>Partially Corrected</p>	<p>Mrs. Ramona Pacheco, Finance and Budget Director and Mrs. Carmen M. Velázquez, Accounting Supervisor</p>	<p>During Fiscal Year 2009-2010</p>

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Audit Period: July 1, 2007 – June 30, 2008 Fiscal year 2007-2008

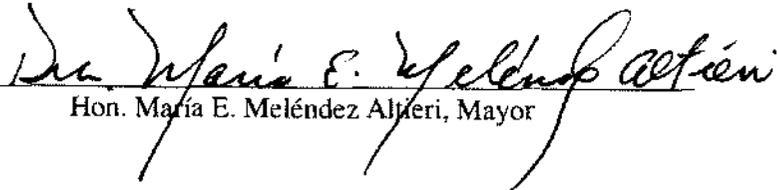
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>3. Three (3) contract agreements did not include the effective signature date.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should evaluate its internal controls over disbursement and procurement and ascertain that comply with the applicable laws and regulations.</p>	<p>Training will be offer to the personnel assigned to both areas.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

28/Jul/09  
Date

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

Apartado 331709  
Ponce, Puerto Rico 00733-1709

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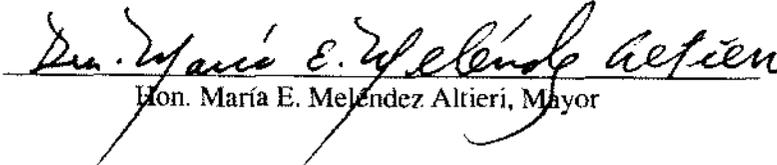
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-35 (FA)- Cash Management (C) (MW)</u></p> <p><u>Condition</u></p> <p>1. During our audit of programs' bank reconciliation account number 0101 1030000030 of Section 8 Voucher, we noted that the cash balance shown higher average monthly balance over \$2,950,000. This situation presents potential for excessive federal cash on hand.</p> <p>2. During the evaluation of the bank statement with reconciliations, we noted that several checks outstanding for more than six months and more than a year without charge. In several months we see that the canceled checks that are forfeited by their life belong to the same person or entity. The</p>	<p>The Program Director with the collaboration of the Municipal Finance Department will analyze the causes of those situations and will take adequate corrective action to minimize the average monthly cash balance and avoid outstanding checks for more of six months. The Program Director will establish an internal control over the outstanding checks over three (3) months, which permit a timely detection of errors or possible irregularities.</p>	<p>Still in Process</p>	<p>Mrs. Ramona Pacheco, Finance and Budget Director and Mrs. Oded Pola, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/ jul /09.  
Date

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

Apartado 331709  
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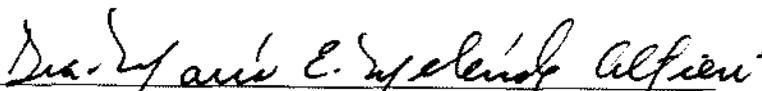
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>Program does not have a monitor over outstanding checks for more than six months.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should take the effective and necessary action to analyze the real causes of this situation and to improve compliance with federal requirement for cash management regarding payment to tenant and landlord and cash balance.</p>	<p>The Accounting Department of the Program is being restructured to improve the procedures related to the bank reconciliations.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/ jul/09.  
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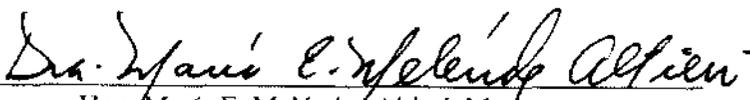
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-36 (FA) - Participant Eligibility (E) (MW)</u></p> <p><u>Condition</u></p> <p>We have performed an eligibility test for forty (40) participants' files and noted the following exceptions:</p> <p>1. Six (6) files examined did not comply with the timing requirement to initiate the reexamination verification process.</p> <p>2. Four (4) files examined did not include evidence of income.</p> <p>3. Two (2) files examined did not include evidence of Family Department Certification (PAN).</p>	<p>The Quality Control Unit was restructured to improve the established procedures to evaluate file content and report accuracy.</p> <p>Technical training will be provided to the personnel assigned.</p> <p>The Program Director will be aggressive in supervise the use of the checklist entitled "Listado de Cotejo del Reexamen Annual" that is going to be used by housing investigator to</p>	<p>Partially Corrected</p> <p>In-Progress</p> <p>In-Progress</p>	<p>Mrs. Odette Pola, Program Director</p> <p>Jayson Vega, Program Supervisor</p> <p>Jayson Vega, Program Supervisor</p>	<p>During Fiscal Year 2009-2010</p> <p>During the Fiscal Year 2009-2010</p> <p>During the Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
 Date

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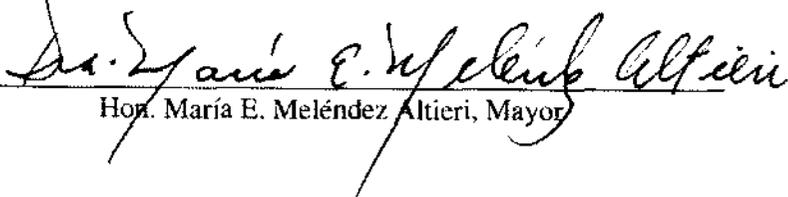
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
4. Two (2) files examined did not include evidence of Family Child Support (ASUME) Certification.	ensure the annual reexamination are performed according to regulations section 8.			
5. One (1) file examined has the adjusted income of the family calculated incorrectly.	The internal control evaluation over contract will be strengthened to assure that contracts include all benefits to be granted to the participants.	In-Progress	Jayson Vega, Program Supervisor	During the Fiscal Year 2009-2010
6. One (1) file examined did not include evidence of US Citizenship Declaration Form.	Occupancy Training May 27-29, 2009	Done	Jayson Vega, Program Supervisor	
7. Three (3) files examined did not have evidence of Social Security Verification.				
8. Eight (8) files examined did not have evidence of Authorization for Release of Information/Privacy Act Notice.				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
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29/jul/09.  
Date

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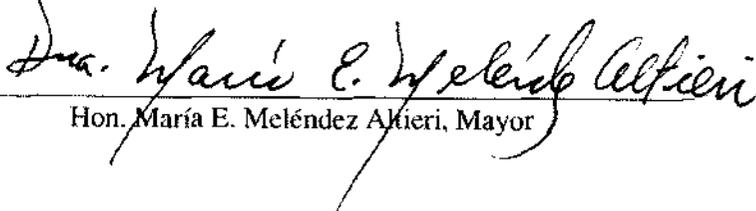
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
9. In one (1) file examined the certification of child care cost that were considered in the Form 50058 are calculated incorrectly.  10. One (1) file examined did not include evidence of the cost of child care expense.  11. Twenty (20) files examined did not include evidence of Value of Assets verification.  12. Six (6) files examined did not include evidence of Good Behavior Certification for all family members of 18 years old and up.  13. Six (6) files examined did not include evidence of Drug Free Certification.				

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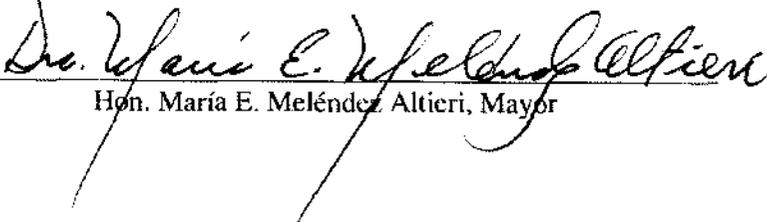
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>14. Three (3) files examined did not include HAP Contract or Amendment that applied to the fiscal year audited.</p> <p>15. One (1) file examined did not include evidence of the Lease of Voucher Tenancy.</p> <p>16. Ten (10) files examined did not include evidence of utilities invoice and the tenants have utilities allowance.</p> <p>17. Three (3) files examined have the utilities allowance calculated incorrectly in the contract amendment.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
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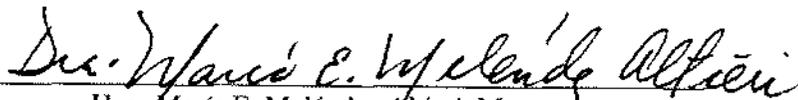
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>18. In twelve (12) files examined, we noted that the contracts were signed long after the effective date that indicates the annual reexamination (Form 50058) and the effective date of the contract; therefore payments were processed without the contract being completed.</p> <p>19. Four (4) contracts or amendments did not indicate the utilities allowance however the Program is given subsidy to the tenant.</p> <p>20. In one (1) file examined the contract does not indicate the negative rent applied according to the Family Report 50058.</p> <p>21. Two (2) files examined did not include evidence of Marriage or Divorce Certification.</p>				

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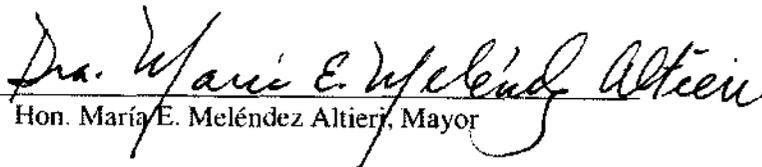
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
22. Three (30) files examined did not include evidence of Sworn Statement that identified the Social Status, Income, and Property.  23. Three (3) files examined did not include evidence of family members' Birth Certification.  24. Two (2) files examined did not include evidence of Certificate of Study Children.  25. Six (6) files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.  26. Eight (8) files examined did not include evidence of Department of Treasury Debt Certification.				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

24/ jul /09.  
 Date

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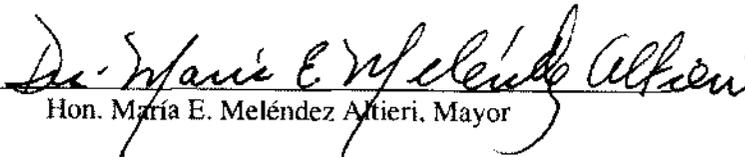
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
27. Six (6) files examined did not include evidence of Certification of Movable and Immovable Property (CRIM).  28. Eight (8) files examined did not include evidence of Certification of Income Tax Return for the last five years.  29. Six (6) files examined did not include evidence of Credit Information Authorization.  30. Two (2) files examined did not include evidence of Family Photo.				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
 Hon. María E. Meléndez Altieri, Mayor

28/jul/09.  
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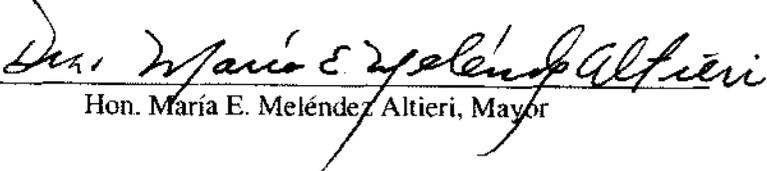
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should establish strengthen internal supervisory quality controls to monitor performance, ensure compliance with these procedures, and train staff on documentation and verification process.</p>				
<p><u>Finding Number 2008-37 (FA) - Financial Reporting (L) (MW)</u></p> <p>In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" versus the accounting records, we noted the following:</p> <p>1. In the period covered from July 1, 2007 to September 30, 2007 the following items reported certain differences:</p>	<p>The Program will implement a new accounting program, which contains adequate procedures for the timely conciliation of federal fund report with accounting records.</p>	<p>Still in Process</p>	<p>Mr. Osvaldo R. Maldonado, Program Fiscal Unit Supervisor, an Accountant IV and Mrs. Ana R. Hernández, Accountant III</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/08  
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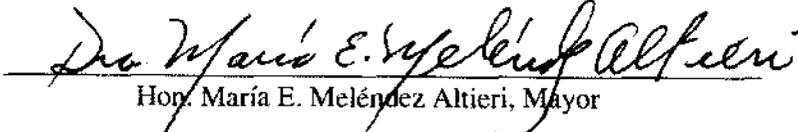
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSIBILITY	TIMETABLE
<p>a. The HAP Voucher Unit                      b. The "Portability-In" HAP Voucher Unit, for the month of July 2007                      c. The "Portability In" HAP Voucher Expense                      d. The Administrative Expenses</p> <p>2. In the period covered from October 1, 2007 to December 31, 2007 the following items reported certain differences:</p> <p>a. The "Portability Out" HAP Voucher Unit, for the month of December 2007                      b. The HAP Voucher Unit                      c. The "Portability Out" HAP Voucher Expense, for the month of December 2007                      d. The "Fraud Recovery Amount Booked", for the month of November 2007</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

261

  
 Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
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**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

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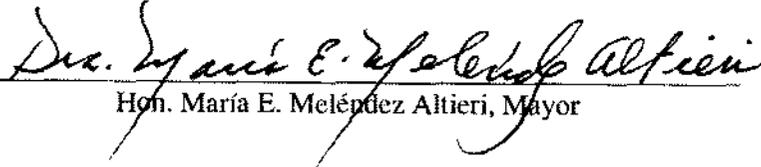
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>e. The "Portability In" HAP Voucher Expense, for the month of December 2007</p> <p>3. In the period covered from April 1, 2008 to June 30, 2008 the following items reported certain differences:</p> <p>a. The HAP Voucher Unit</p> <p>b. The HAP Voucher Expense</p> <p>c. The HAP Voucher Expense after the first day of the month, for the month of May 2008</p> <p>d. The "Portability-In" HAP Voucher Unit, for the month of May 2008</p> <p>e. The "Portability-In" HAP Voucher Expense</p> <p>f. The Administrative Expense , for the months of April 2008 and May 2008</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

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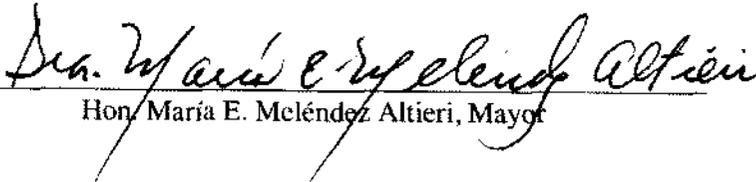
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p><b>The Municipality</b> should take appropriate actions to reconcile in a timely manner the federal finds reports with the accounting records in order to procedure reliable financial data.</p>				
<p><u>Finding Number 2008-38 (FA) - Special Reporting (L and E) (MW)</u></p> <p>We have performed compliance test to forty (40) participants' files, family report (HUD Form 50058) and we noted the following situations:</p> <p>1. Three (3) files examined have incorrect the item 5i "Date of Last Annual HQS Inspection" in HUD's Form 50058.</p>	<p>The Program Supervisor will monitor the family report Form HUD-50058 revising a monthly report that extract information from the information system and matching with documentation in files</p>	<p>Still in Process</p>	<p>Jayson Vega, Program Supervisor</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
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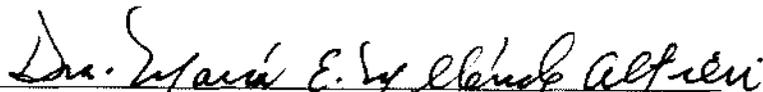
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>2. One (1) file examined have incorrect the item 5h "Date of Unit Last Passed HQS Inspection" in HUD's Form 50058.</p> <p>3. In six (6) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen review procedures of the information recorded in HUD's Form-50058, Family Report.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
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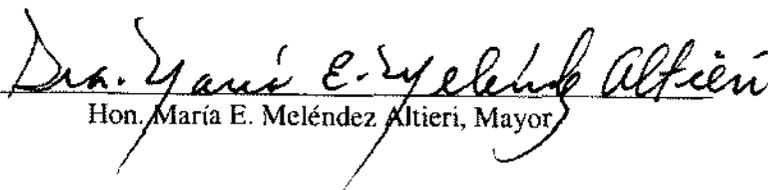
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-39 (FA) - Performance Reporting (L)</u></p> <p><u>Condition</u></p> <p>According to our audit test, we found that the following indicators are reported incorrectly in the SEMAP Report (Certification HUD-52648):</p> <ul style="list-style-type: none"> <li>- Indicator (2b) Reasonable Rent</li> <li>- Indicator (5) HQS Quality Control Inspection</li> <li>- Indicator (6) HQS Enforcement</li> </ul> <p><u>Recommendation</u></p> <p><b>The Municipality</b> must revise their internal assessment criteria in their test that affect the</p>	<p>The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.</p>	<p>Still in Process</p>	<p>Odette Pola, Program Director and the Quality Control Unit Personnel</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

29/jul/09.  
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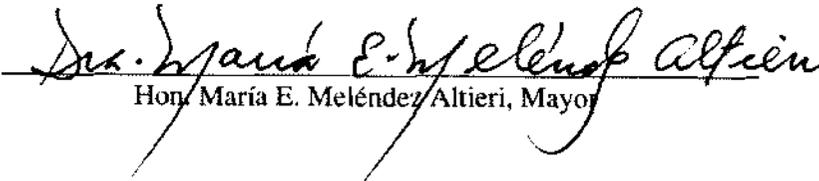
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
reasonable rent, HQS quality control inspection and HQS enforcement for achieving reliable results.				
<p><u>Finding Number 2008-40 (FA) - Reasonable Rent (N) (MW)</u></p> <p>We have performed compliance test to forty (40) participants' files and we noted the following situations:</p> <p>1. In one (1) file examined, the rental contract that applies to the new admission is over the Rent Reasonableness Certification.</p>	<p>The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.</p> <p>The Inspectors Supervisor will monitor all the new inspections that comply with the current rents for comparable unassisted unit, has the documentation that evidence of the Rent Reasonableness Certification. (Items 1 and 2)</p>	Partially Corrected	Mrs. Odette Pola, Programa Director and the Quality Control Unit Personnel	During Fiscal Year 2009-2010

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date

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

Apartado 331709  
Ponce, Puerto Rico 00733-1709

**CORRECTIVE ACTION PLAN**

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

Audit Period: July 1, 2007 – June 30, 2008 Fiscal year 2007-2008

Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>2. Three (3) files examined did not include evidence of the Rent Reasonableness Certification.</p> <p>3. According to the Fair Market Value for the fiscal year 2007-08, we noted in twenty one (10) files examined that the payment standard was not calculated accordance to the percentage established in the Administrative Plan approved by HUD.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> establishes review procedures to ascertain that the FMR applicable and the payment standard percentage applicable in the reexamination are computed correctly in accordance with federal regulation.</p>	<p>The Program Supervisor reviews the Administrative Plan and corrected the Payment Standard within 110%. (Item 3)</p> <p>The Program Supervisor has create a form will evaluate and monitor any increase of rent according with the process established.</p>	<p>Partially Corrected</p> <p>Partially Corrected</p>	<p>Jayson Vega, Program Supervisor</p> <p>Jayson Vega, Program Supervisor</p>	<p>July 2009</p> <p>July 2009</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date



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

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Audit Period: July 1, 2007 – June 30, 2008 Fiscal year 2007-2008

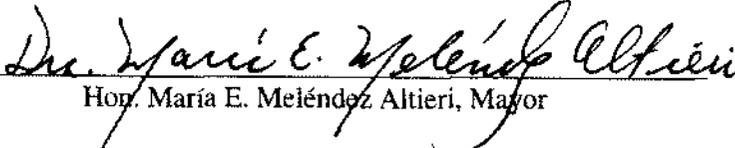
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should establish review procedures to ascertain that tenant's utilities allowance are 9.5</p>				
<p><u>Finding Number 2008-42 (FA) - Housing Quality Standards Inspections (N) (MW)</u></p> <p><u>Condition</u></p> <p>We performed test the Housing Quality Standard Inspection in forty seven (47) participants' files and we noted the following:</p> <p>I. Twelve (12) files examined did not include evidence of the inspection reports applicable for the fiscal year 2007-2008. The Municipality did not comply with the federal regulation that says</p>	<p>The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.</p> <p>New personnel will be hired for Housing Inspectors</p>	<p>Partially corrected</p>	<p>Mrs. Odette Pola, Program Director</p>	<p>During Fiscal Year 2009-2010</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date

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Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>that at least one inspection should be done every twelve months.</p> <p>2. In two (2) files examined, the inspection report have wrong the pass date.</p> <p>3. In two (2) files examined, the inspection report does not indicate the inspector conducting the inspection.</p> <p>4. In one (1) file examined, the inspection report does not indicate the date of the last inspection.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should strengthen procedures to ascertain that all tenant's rented units are inspected for HQS at least one annually.</p>	<p>The Inspectors Supervisor will keep control of all failed inspections utilizing the form entitled "HQS Enforcement Log", to follow up and comply with timing of correction according with regulations.</p> <p>HQS Inspection Training was conducted on April 7-9, 2008.</p> <p>Acquired mobile inspections tablets and software to facilitate the process of inspections and conducted on time as required.</p>	<p>Still in Process</p> <p>Partially Corrected</p> <p>Partially Corrected</p>	<p>Mrs. Odette Pola, Program Director</p> <p>Jayson Vega, Program Supervisor</p> <p>Jayson Vega, Program Supervisor</p>	<p>During the Fiscal Year 2009-2010</p> <p>During Fiscal Year 2009-2010</p> <p>During Fiscal Year 2009-2010</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

*Maria E. Melendez Altieri*  
 \_\_\_\_\_  
 Hon. María E. Meléndez Altieri, Mayor

*28/jul/09.*  
 \_\_\_\_\_  
 Date

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

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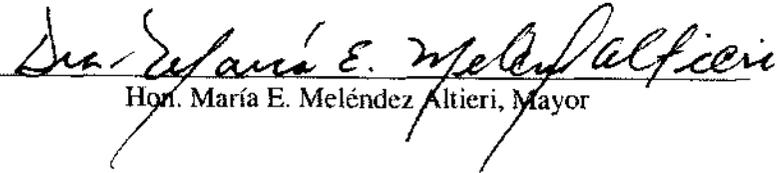
Principal Executive: Hon. María Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p><u>Finding Number 2008-43 (FA) - HQS Enforcement (N) (MW)</u></p> <p><u>Condition</u></p> <p>In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections form HUD-52580; we found the following situations in thirty three (33) participants' files examined:</p> <p>1. Twelve (12) files examined, we noted that the inspection report does not indicate the final pass date by which each step of the deficiencies (the inspection report is designed to indicate the date).</p> <p>2. Ten (10) files examined, the inspection report does not have the initials of the Inspector Officer's that certifies the date on which the deficiencies were repaired.</p>	<p>Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.</p> <p>New personnel will be hired for Housing Inspectors</p> <p>The Inspectors Supervisor will keep</p>	<p>Partially corrected</p> <p>Still in Process</p>	<p>Mrs. Odette Pola, Program Director</p> <p>Mrs. Odette Pola, Program Director</p>	<p>During Fiscal Year 2009-2010</p> <p>During Fiscal Year 2009-2010</p>

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Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date

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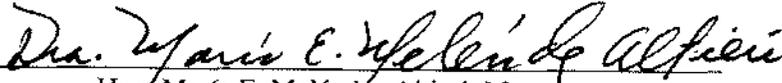
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
3. In one (1) file examined the inspection unit was considered by the Inspector Officer without deficiencies (pass), however the unit had deficiencies that had to be repaired within the next twenty-four (24) hours from the date of inspection report. The file has no evidence of a re-inspection.	control of all failed inspections utilizing the form entitled "HQS Enforcement Log", to follow up and comply with timing of correction according with regulations.	Partially Corrected	Jayson Vega, Program Supervisor	During Fiscal Year 2009-2010
4. In one (1) file examined the inspection report indicates that the unit does not pass inspection, however does not specify which deficiencies were found.	HQS Inspection Training was conducted on April 7-9, 2008	Partially Corrected	Jayson Vega, Program Supervisor	During Fiscal Year 2009-2010
5. Three (3) files examined, the Program does not send to tenant or owner the notification indicating the deficiencies found in the unit and the date of the next re-inspection.				

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24/jul/09  
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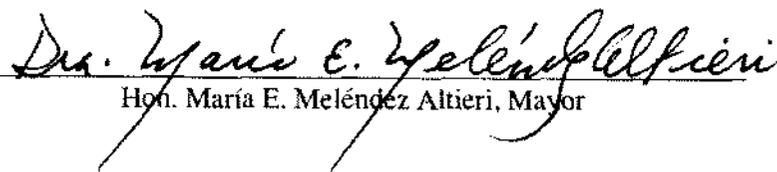
Principal Executive: Hon. María Meléndez Altieri, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>6. Four (4) files examined had no evidence of the notification which was sent to the owner/tenant indicating the date when the last re-inspection.</p> <p>7. Eighteen (18) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (24 hours or 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. <b>Questioned Cost \$5,283</b></p> <p>8. Seven (7) files examined, the inspection report of the unit indicated failed and the files do not have evidence that the owner/tenant were corrected the deficiencies detected. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligation and/or cancellation</p>				

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24/Jul/09.  
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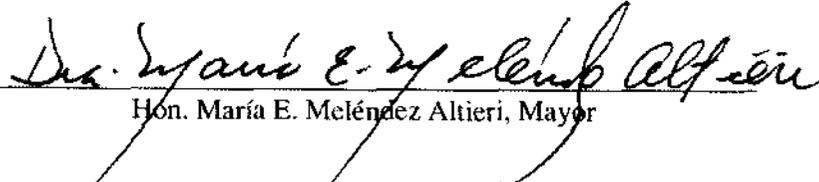
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>of contract, within time frame required by federal regulations. The unit was never corrected. <b>Questioned Cost \$16,698</b></p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> require the authority to inspect the units that did not meet minimum housing quality standard to verify that the owner and the tenant took appropriate corrective actions to make the unit repairs, if appropriate actions were not taken, <b>the Municipality</b> should abate the rents or terminate the housing assistance payment contract. <b>The Municipality</b> needs to implement internal controls and perform quality controls which ensure that units are inspected in a timely manner and inspections are accordance with its administrative plan and HUD requirement and should strengthen its monitoring</p>				

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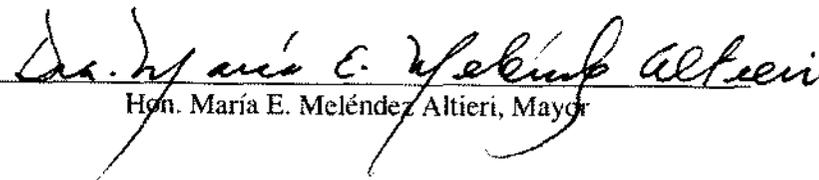
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Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.				
<p><u>Finding Number 2008-44 (FA) - Housing Assistance Payment (N) (MW)</u></p> <p>In a sample of forty (40) payments under rental contract, we noted the following:</p> <p>1. Thirteen (13) payments examined, the HAP contract did not agree with the amount recorded on the HAP register and the amount on line 12 u of the Family Report (HUD-50058). During the audit we noted difference between the amount indicated in the lease and the amount paid to the landlord. <b>The Municipality</b> process duplicate rent payment and processed retroactive payment for units that</p>	The Housing Investigators Supervisor and the Accountants Supervisor will verify all the payments once the housing investigator finished with any transaction that involved payments to eliminate any discrepancies and comply with the laws and federal regulations.	Still in Process	Mrs. Odette Pola, Program Director and Mr. Jayson Vega, Program Supervisor	During Fiscal year 2009-2010

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date

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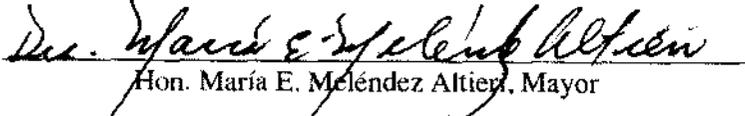
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULT OR STATUS	RESPONSABILITY	TIMETABLE
<p>not passing inspection. <b>The Municipality</b> process payments that are not allowed by the amount of \$9,727.</p> <p>2. Two (2) payments examined, we noted difference between the negative rent indicated in the Family Report (HUD-50058) and the negative rent paid to the tenant in the payroll report examined. <b>The Municipality</b> process payments that are not allowed by the amount of \$72.00.</p> <p><u>Recommendation</u></p> <p><b>The Municipality</b> should improve its internal control over the housing assistance payments in order to comply with the laws and federal regulations.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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\_\_\_\_\_  
Hon. María E. Meléndez Altieri, Mayor

24/jul/09.  
Date