

Ponce



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2009

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OF THE COMMONWEALTH OF PUERTO RICO
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COMMONWEALTH OF PUERTO RICO
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BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2009, 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 an opinion 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") and "Corporación para el Desarrollo de la Zona Libre de Ponce, C.D." ("CODEZOL"), which are shown as discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for "Patronato" and "CODEZOL", are based on the report of other auditors.

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 United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the legally separated discrete component unit, "Port of Ponce", which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the **Autonomous Municipality of Ponce, Puerto Rico**, as of June 30, 2009 and the changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 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.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information for the primary government of the **Autonomous Municipality of Ponce, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages **3** through **15** and the Budgetary Comparison Schedule-General Fund on page **58** are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 **Autonomous Municipality of Ponce'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 of the **Autonomous Municipality of Ponce**. 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.


LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
December 29, 2009

Stamp No. 2407059 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

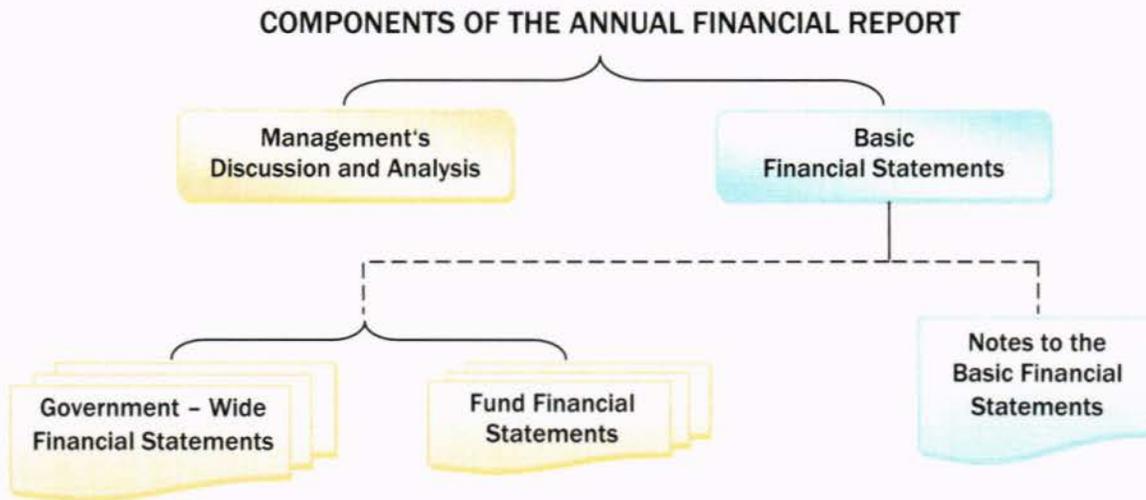
COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

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, 2009. All amounts, unless otherwise indicated, are expressed in millions of dollars.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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



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.

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 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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, claims and losses, 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, 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 "component units" are important for the Municipality because are financially accountable for them and your significant importance to us.

The government-wide financial statements can be found on pages **16-17** of this report.

GOVERNMENTAL FUNDS

Government funds are used 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 spend able resources, as well as on balances of spend able resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

The Municipality maintains seven individual governmental funds: General Fund, Capital Projects Fund-Loan \$26.1M, Health and Human Service Grants (HHS), Workforce Investment Act Grants (WIA), Debt Service, Housing Urban Development Grants (HUD) and Other Funds. The Other Funds include the Municipal Bank. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes 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 **58** and **59** of this report.

The governmental funds financial statements can be found on pages **18** to **21** of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages **23** to **57** of this report.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2009 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$410,646,388 which represents an increase of 10% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2009, total liabilities amounted to \$313,681,599. Out of said amount, \$249,289,717 corresponded to long-term liabilities of which \$144,877,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$96,964,789 which represents an increase of 3% compared to prior fiscal year.
4. Total revenues available for the operating of activities as reflected in the Statement of Activities amounted to \$181,716,448, derived from the following sources: \$4,671,395; from charges for services; \$54,671,804 from operating grants and contributions; \$21,693,678 from capital grants and contributions obtained from other sources, and \$100,679,571 from general revenues.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$178,713,645.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$3,002,803.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of \$1,335,468.
8. In the fund financial statements, the governmental activities revenue increased \$18,172,284 (or 11%). Governmental activities expenditures increased \$14,973,060 (or 7%).
9. As the end of the current fiscal year, the Municipality's general fund deficit amounted to \$24,459,876 compared to a general fund deficit of \$4,414,901 in the prior fiscal year, as restated.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of \$8,637,196.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

Governmental Activities

Net assets of the Municipality's governmental activities increased from \$93.96 million in 2008 to \$96.96 million in 2009. Unrestricted fund balance, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased from approximately \$136.21 million at June 30, 2008 to approximately \$131.6 million at June 30, 2009.

TABLE 1

NET ASSETS		
	Governmental Activities	
	2009	2008
Current and other assets	\$ 63,056,414	\$ 65,982,130
Capital assets	347,589,974	308,806,124
Total assets	410,646,388	374,788,254
Long-term debt outstanding	249,289,717	223,653,579
Other liabilities	64,391,882	57,172,588
Total liabilities	313,681,599	280,826,167
Net Assets:		
Invested in capital assets, net of related debt	202,712,974	205,315,124
Restricted for:		
Debt Services	3,261,449	2,351,860
Capital Projects	13,100,888	9,442,868
Federal Grants	10,936,946	4,123,382
Special Purposes	(1,442,968)	8,942,807
Unrestricted	(131,604,500)	(136,213,954)
Total net assets	\$ 96,964,789	\$ 93,962,087

**Components of Net Assets
(In millions)**



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

Total revenues for the Municipality's governmental activities increased by \$18.2 million in 2009. The total expenses increased by \$14.9 million.

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 supervise the operations of all departments. The components of that committee meet, on a monthly basis. In those meetings the Mayor receives various financial reports, such as, cash flows statements, budget vs. actual, aging of accounts payable and a management report with the necessary explanations of each account variance and the status of accounts payable and accrued expenses. The financial decisions of the Mayor were principally supported by those reports.
- Regarding the budget administration, the Municipality received the estimate of expenditures by each department, and the Finance and Budget Director and the Mayor performed the evaluation expenditures to determine the need of each one, resulting in a reduction of expenditures without affecting the daily operations.

Revenues in the statement of revenues, expenditures and changes in fund balances, pages **20** and **21**, for the fiscal year ended June 30, 2009 were as follows:

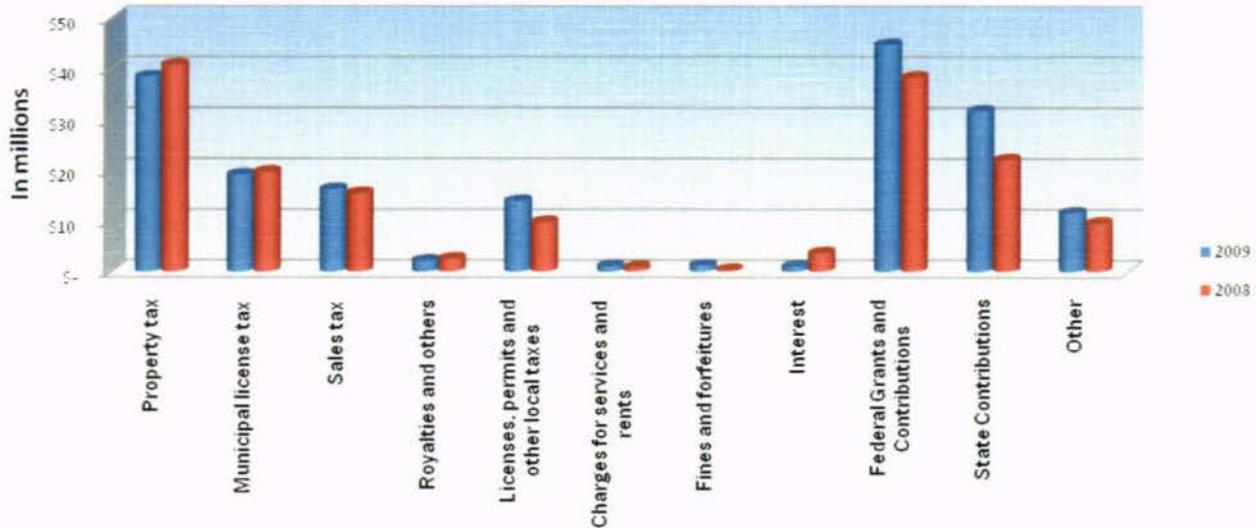
TABLE 2

GOVERNMENTAL REVENUES		
	Total Governmental Funds	
	2009	2008
Property tax	\$ 38,397,009	\$ 40,737,505
Municipal license tax	19,176,555	19,702,075
Sales tax	16,311,490	15,526,051
Royalties and others	2,238,364	2,602,497
Licenses, permits and other local tax	13,994,270	9,854,304
Charges for services and rents	1,127,773	921,762
Fines and forfeitures	1,305,258	456,890
Interest	1,123,478	3,748,244
Intergovernmental Revenues:		
Federal grants and contributions	44,714,588	38,272,724
State contributions	31,650,894	22,070,414
Other	11,676,769	9,651,698
Total	\$ 181,716,448	\$ 163,544,164

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF PONCE
 MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
 YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

GOVERNMENTAL REVENUES



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 include property tax, municipal license tax, sales tax and licenses and permits amounted to \$87.88 million in 2009 and \$85.82 million in 2008.

The Municipality's governmental-wide reported a change in net assets of \$3 million in 2009 and \$11 million in 2008. Table 3 and 4 shown the principal resources collected by governmental activities:

TABLE 3

	REVENUES	
	GOVERNMENTAL ACTIVITIES	
	2009	2008
Property tax	\$ 38,397,009	\$ 40,737,505
Municipal license tax	19,176,555	19,702,075
Sales tax	16,311,490	15,526,051
Licenses, permits and other local tax	13,994,270	9,854,304
Total	\$ 87,879,324	\$ 85,819,935

COMMONWEALTH OF PUERTO RICO
 AUTONOMOUS MUNICIPALITY OF PONCE
 MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
 YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

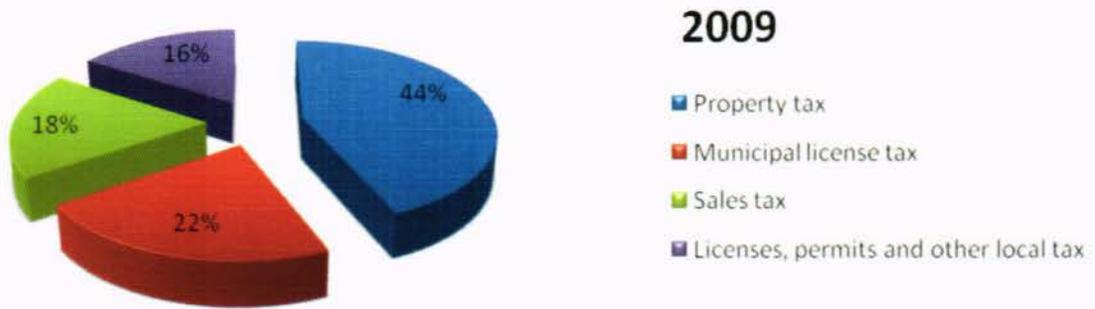
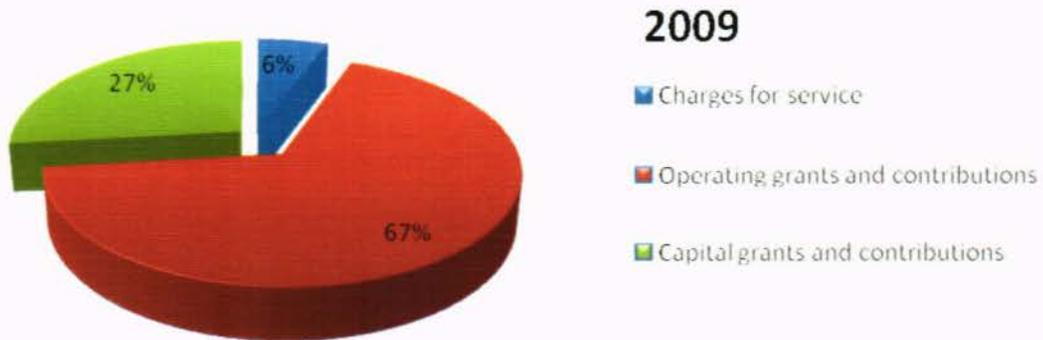


TABLE 4

Program Revenues by Major Sources		
	GOVERNMENTAL ACTIVITIES	
	2009	2008
Charge for service	\$ 4,671,395	\$ 2,602,497
Operating grants and contributions	54,671,804	46,291,328
Capital grants and contributions	21,693,678	23,703,480
Total	<u>\$ 81,036,877</u>	<u>\$ 72,597,305</u>



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

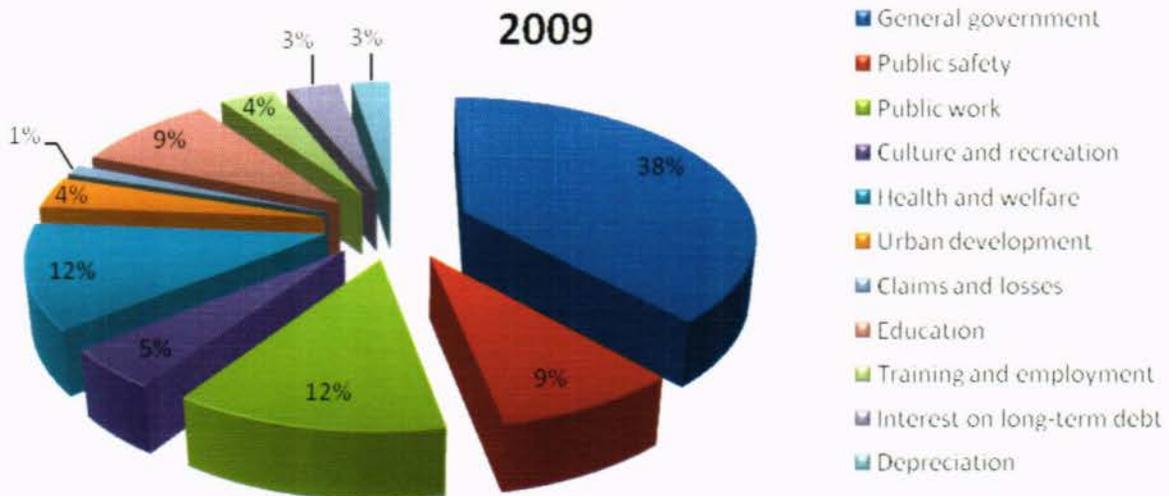
YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

The cost of all governmental activities for the year ended June 30, 2009 was \$178.7 millions as compared to \$174.5 millions in prior year. Table 5, presents the cost of each of the Municipality's largest program expenses for the year ended June 30, 2009.

TABLE 5

Total Expenses		
	GOVERNMENTAL ACTIVITIES	
	2009	2008
General government	\$ 68,562,662	\$ 68,872,427
Public safety	15,297,639	16,218,327
Public works	22,305,395	22,121,262
Culture and recreation	8,373,137	7,295,756
Health and welfare	21,729,723	25,193,326
Urban development	6,518,866	3,751,675
Claims and Losses	2,165,577	971,169
Education	16,418,353	12,171,060
Training and employment	6,448,567	5,476,250
Interest on long-term debt	6,270,465	6,556,722
Depreciation	4,623,261	5,924,229
Total	\$ 178,713,645	\$ 174,552,203



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

Fund Financial Statements

Governmental funds, as presented in the balance sheet on pages **18** and **19**, reported a total fund balance (deficit) of \$(1.3) million in 2009 and \$8.8 million in 2008, as restated.

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 \$31.6 million; principally include \$7.0 million of the Department of Natural and Environmental Resources, \$9.9 millions of contributions in lieu of tax provided by PR Electric Power Authority, and \$3.3 million of Subsidy and Lottery of Puerto Rico, and \$2.1 million of Investment on Our Infrastructure (PINI).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

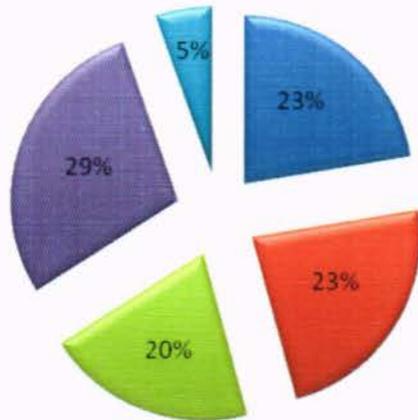
As of June 30, 2009, the Municipality had \$415.83 million invested in a broad range of capital assets; including buildings, parks, roads, bridges, and equipment, see Table 6 below. This amount represents a net increase of \$38.78 million net of depreciation accumulated.

TABLE 6

Capital Assets		
(Net of accumulated depreciation)		
	Governmental Activities	
	2009	2008
Land and improvements	\$ 77,804,172	\$ 95,265,154
Construction in progress	81,190,814	27,043,140
Buildings and buildings improvements	70,337,753	72,712,187
Infrastructure	99,646,845	96,256,655
Equipment	18,610,390	17,528,988
Total	\$ 347,589,974	\$ 308,806,124

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)
YEAR ENDED JUNE 30, 2009**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)



Capital Assets

- Land and improvements
- Construction in progress
- Buildings and buildings improvements
- Infrastructure and infrastructure improvements
- Equipment

Infrastructure increased by approximately \$7 million and land improvements increased by \$965,596. Detailed information about the Municipality's capital assets is presented in Note 6 to the basic financial statements.

Debt

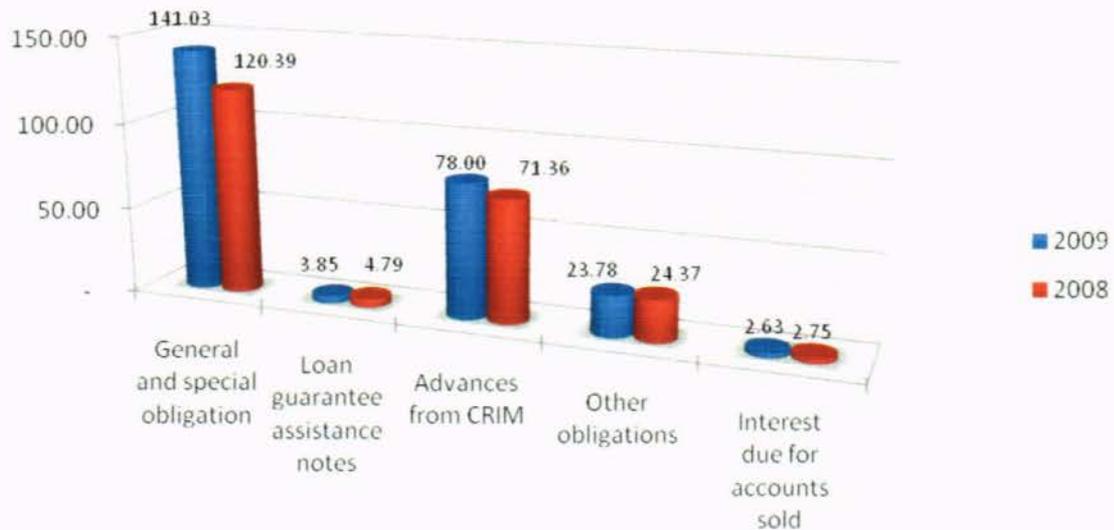
At year-end, the Municipality had \$249.3 million in bonds, notes and other long-term debts outstanding as compared to \$223.7 million in prior year, as restated an increase of \$25.6 million, as shown in Table 7 below.

TABLE 7

Long Term Debt		
	Governmental Activities	
	2009	2008, as restated
General and special obligation	\$ 141,032,000	\$ 120,392,000
Loan guarantee assistance notes	3,845,000	4,785,000
Advances from CRIM	78,001,112	71,362,100
Other obligations	23,780,530	24,369,009
Interest due for sold account	2,631,075	2,745,470
Total	\$ 249,289,717	\$ 223,653,579

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)



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 2008-2009 budget.

The statement of revenues and expenditures - general fund - budget vs. actual in page 58 presents an excess of expenditures over revenues of approximately \$8,637,196.

The original and final budget (General Fund) 2008-09 are presented in pages 58 and 59 providing detailed information to legal compliance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)
YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Ponce** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

On September 14, 2009, the Municipal Legislature approved the issuance of a special obligation bond for the amount of \$15,860,000 for operational activities.

On December 6, 2009, the Municipality of Ponce realized a payment plan for the amount of \$1,018,309., during the fiscal year 2009-2010. The Municipality of Ponce executed an agreement with Puerto Rico Aqueduct and Sewer Authority.

On December 14, 2009, the Municipal Legislative approved the Joint Resolution 105, 2009-2010 Series, to impose payment plan for the amount of \$2,668,001. The agreement of the payment plan between the Municipality of Ponce and Retirement System Administration, by concept of benefits granted to the pensioners during the fiscals years 2002-2010.

WIA-ARRA Funds - This special revenue fund is used to account for resources provided under the American Recovery and Reinvestment Act of 2009 (ARRA) for Workforce Investment Act of 1998 (WIA).

Of the \$5,600 million granted to the Commonwealth of Puerto Rico, as one of the territories of the United States, the training and employment programs under the Workforce Investment Act of 1998 (WIA) received \$92,110,041 to promote activities related to the creation of job opportunities. The "**Consortio de Ponce**" integrates this kind of activities in its annual plan for the fiscal year 2008-2009 receiving a grant of \$3,409,605 that must be expended from February 2009 through June 30, 2011. This grant corresponds to fiscal year 2008-09 and is distributed in the following programmatic concepts:

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Youth Program	\$ 1,805,470
Adult Program	838,849
Dislocated Program	765,286
Total	<u>\$ 3,409,605</u>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 component unit's financial statements, or need additional financial information, contact us at **Municipality of Ponce**, PO Box 331709, Ponce, PR 00733-1709.

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Net Assets
June 30, 2009

	Governmental Activities	Component Units	
		CODEZOL	Patronato
Assets			
Cash (Note 2)	\$ 3,943,247	\$ 354,262	\$ 435,310
Accounts receivable net (Note 3):			
Municipal license tax (Notes 3 & 9)	207,818		
Sales tax (Note 10)	1,505,853		
Other	1,017,636	135,714	21,584
Due from local government (Note 4)	5,248,717		
Due from federal government (Note 4)	10,498,406		
Other assets		119,623	41,841
Restricted assets:			
Cash and cash equivalents (Note 2)	12,839,161	100,000	
Cash and cash equivalents with fiscal agent (Note 2)	27,795,576		
Capital assets:			
Land, improvements and construction in progress			
Non-depreciable	130,060,178		
Buildings, infrastructure and other capital assets, net of depreciation	217,529,796	79,519	124,020
Total capital assets	<u>347,589,974</u>	<u>79,519</u>	<u>124,020</u>
Total assets	<u>410,646,388</u>	<u>789,118</u>	<u>622,755</u>
Liabilities			
Accounts payable and accrued liabilities (Note 7)	32,157,270	83,112	174,895
Due to other agencies (Note 11)	13,971,260		
Deferred revenues (Note 13):			
Municipal license tax	16,137,994		
Federal grant revenues	5,337		
Other	9,838		
Accrued interest	2,110,183		
Noncurrent liabilities (Note 14):			
Due within one year	10,925,396		
Due in more than one year	<u>238,364,321</u>		
Total liabilities	<u>313,681,599</u>	<u>83,112</u>	<u>174,895</u>
Net Assets			
Invested in capital assets, net of related debt	202,712,974		
Restricted for:			
Federal grants	10,936,946		
Debt service	3,261,449		
Special purpose	(1,442,968)		171,176
Capital projects	13,100,888		
Unrestricted (deficit) net assets	<u>(131,604,500)</u>	<u>706,006</u>	<u>276,684</u>
Total net assets	<u>\$ 96,964,789</u>	<u>\$ 706,006</u>	<u>\$ 447,860</u>

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units	
					Governmental Activities	CODEZOL	Patronato
Primary Government							
General government	\$ 68,562,662	\$ 1,127,773	\$ 9,957,216	\$ -	\$ (57,477,673)	\$ -	\$ -
Public safety	15,297,639	1,305,258	1,747,198		(12,245,183)		
Public works	22,305,395	2,238,364	5,184,898	21,693,678	6,811,545		
Culture and recreation	8,373,137				(8,373,137)		
Health and welfare	21,729,723		13,296,161		(8,433,562)		
Urban development	6,518,866		2,216,852		(4,302,014)		
Claims and losses	2,165,577				(2,165,577)		
Education	16,418,353		12,285,594		(4,132,759)		
Training and employment	6,448,567		9,983,885		3,535,318		
Depreciation	4,623,261				(4,623,261)		
Interest	6,270,465				(6,270,465)		
Total governmental activities	\$ 178,713,645	\$ 4,671,395	\$ 54,671,804	\$ 21,693,678	(97,676,768)	-	-
Component units							
CODEZOL	\$ 437,391	\$ 508,649				71,258	
Patronato	1,318,218	1,756,950					438,732
Total Component Units	\$ 1,755,609	\$ 2,265,599	-	-	-	71,258	438,732
General revenues:							
Property taxes (Note 8)					38,397,009		
Municipal license tax (Note 9)					19,176,555		
Sales tax (Note 10)					16,311,490		
Licenses, permits and other local taxes					13,994,270		
Interest					1,123,478		2,124
Other					11,676,769	22,029	7,004
Total general revenue					100,679,571	22,029	9,128
Change in net assets					3,002,803	93,287	447,860
Net assets, beginning of year, as previously reported					94,281,762	612,719	-
Prior period adjustments (Note 20)					(319,776)		
Net assets, beginning of year, as restated					93,961,986	612,719	-
Net assets, end of year					\$ 96,964,789	\$ 706,006	\$ 447,860

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Capital Projects Fund- Loan \$26.1M	Health and Human Services Grants	Workforce Investment Act Grants	Debt Service Fund	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
Assets								
Cash (Note 2)	\$ 3,943,247	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,943,247
Accounts receivable net (Note 3):								
Municipal licenses tax	207,818							207,818
Sales tax	1,505,853							1,505,853
Other	345,120					672,516		1,017,636
Due from other agencies					1,277,110			1,277,110
Due from local government (Note 4)	3,561,320				382,537		27,750	3,971,607
Due from federal government (Note 4)			421,854	5,867,451		3,837,670	371,431	10,498,406
Due from other funds (Note 5)	807,723		904,296			148,342	4,351	1,864,712
Restricted cash:								
Cash and cash equivalents (Note 2)	7,361,191		102,682	52,992		4,202,012	1,120,284	12,839,161
Cash and cash equivalents with fiscal agent (Note 2)	5,892,993	12,661,163			9,196,985		44,435	27,795,576
Total assets	\$ 23,625,265	\$ 12,661,163	\$ 1,428,832	\$ 5,920,443	\$ 10,856,632	\$ 8,860,540	\$ 1,568,251	\$ 64,921,126

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet (Continued)
Governmental Funds
June 30, 2009

	General Fund	Capital Projects Fund- Loan \$26.1M	Health and Human Services Grants	Workforce Investment Act Grants	Debt Service Fund	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities (Note 7)	\$ 16,901,214	\$ 6,875,981	\$ 866,246	\$ 280,795	\$ -	\$ 685,129	\$ 1,062,905	\$ 26,672,270
Due to other agencies (Note 11)	13,908,658	7,426				55,176		13,971,260
Due to other funds (Note 5)	1,127,437	73,582	52,833	60,387		243,060	307,413	1,864,712
General obligations:								
Bonds					5,485,000			5,485,000
Accrued interest					2,110,183			2,110,183
Deferred revenues (Note 13):								
Municipal license tax	16,137,994							16,137,994
Other	9,838							9,838
Federal government			50			5,287		5,337
Total liabilities	48,085,141	6,956,989	919,129	341,182	7,595,183	988,652	1,370,318	66,256,594
Fund (deficiency) balances:								
Reserved for:								
Encumbrances	10,784,433		3,023,906				141,150	13,949,489
Federal grants			(2,514,203)	5,579,261		7,871,888		10,936,946
Debt service					3,261,449			3,261,449
Special purposes	(1,442,968)							(1,442,968)
Capital projects	7,396,714	5,704,174						13,100,888
Unreserved (deficit) fund balance	(41,198,055)						56,783	(41,141,272)
Total fund balances	(24,459,876)	5,704,174	509,703	5,579,261	3,261,449	7,871,888	197,933	(1,335,468)
Total liabilities and fund balances	\$ 23,625,265	\$ 12,661,163	\$ 1,428,832	\$ 5,920,443	\$ 10,856,632	\$ 8,860,540	\$ 1,568,251	

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 (Note 6)

347,589,974

Liabilities including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 14)

(249,289,717)

Net assets of governmental activities

\$ 96,964,789

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund- Loan \$26.1M	Health and Human Services Grants	Workforce Investment Act Grants	Debt Service Fund	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
Revenues								
Property taxes (Note 8)	\$ 31,021,349	\$ -	\$ -	\$ -	\$ 7,375,660	\$ -	\$ -	\$ 38,397,009
Municipal license taxes (Note 9)	19,176,555							19,176,555
Sales tax (Note 10)	13,825,728				2,485,762			16,311,490
Royalties and others	2,238,364							2,238,364
Licenses, permits and other local taxes	13,994,270							13,994,270
Charges for services and rents	1,127,773							1,127,773
Fines and forfeitures	1,305,258							1,305,258
Interest	328,322	729,179			42,705	10,659	12,613	1,123,478
Intergovernmental revenue (Note 12):								
Federal grants and contributions	216,103		14,286,341	9,983,885		17,686,293	2,541,966	44,714,588
State contributions	28,079,331		3,571,563					31,650,894
Other	11,398,771					250,160	27,838	11,676,769
Total revenues	122,711,824	729,179	17,857,904	9,983,885	9,904,127	17,947,112	2,582,417	181,716,448
Expenditures								
Current:								
General government	57,732,300							57,732,300
Public safety	13,443,786						1,853,853	15,297,639
Public works	21,999,742							21,999,742
Culture and recreation	8,373,137							8,373,137
Health and welfare	9,701,634		2,000,747			9,232,575	794,767	21,729,723
Urban development						6,518,866		6,518,866
Claims and Losses	2,165,577							2,165,577
Education	554,966		15,863,387					16,418,353
Training and employment	15,976			6,432,591				6,448,567
Capital outlays:								
Special Communities	3,523,112							3,523,112
Proyects	23,193,872	21,125,005						44,318,877
Debt service:								
Principal	740,000				5,485,000	940,000		7,165,000
Interest	1,122,558				4,912,716	235,191		6,270,465
Total expenditures	142,566,660	21,125,005	17,864,134	6,432,591	10,397,716	16,926,632	2,648,620	217,961,358

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund- Loan \$26.1M	Health and Human Services Grants	Workforce Investment Act Grants	Debt Service Fund	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	(19,854,836)	(20,395,826)	(6,230)	3,551,294	(493,589)	1,020,480	(66,203)	(36,244,910)
Other financing sources (uses)								
Transfers in	5,235,876							5,235,876
Transfers out	(5,426,015)				(37,926)		228,065	(5,235,876)
Loan proceeds		26,100,000						26,100,000
Total other financing sources (uses)	(190,139)	26,100,000	-	-	(37,926)	-	228,065	26,100,000
Excess (deficiency) of revenues over expenditures and other financing sources	(20,044,975)	5,704,174	(6,230)	3,551,294	(531,515)	1,020,480	161,862	(10,144,910)
Fund balance, July 1, 2008, as previously reported	(5,393,739)		371,223	59,033	3,792,964	5,676,121	(172,421)	4,333,181
Prior period adjustment (Note 20)	978,838		144,710	1,968,934	-	1,175,287	208,492	4,476,261
Fund balance, July 1, 2008, as restated	(4,414,901)	-	515,933	2,027,967	3,792,964	6,851,408	36,071	8,809,442
Fund balance, June 30, 2009	\$ (24,459,876)	\$ 5,704,174	\$ 509,703	\$ 5,579,261	\$ 3,261,449	\$ 7,871,888	\$ 197,933	\$ (1,335,468)

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**Commonwealth of Puerto Rico
Autonomous 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 Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds **\$ (10,144,910)**

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

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 48,301,336

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (4,623,261)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets. (4,894,225)

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (26,100,000)

Bonds and notes proceeds provide current financial resources to Governmental Funds. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. 6,400,000

Advance property tax in excess of actual collections are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, advance property tax in excess of actual collections are not reported as expenditures in Government Funds. This amount of advance property tax in excess of actual collection for the current fiscal year. (6,639,012)

Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year. (528,073)

Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduce long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term property tax advance debt from prior year. 114,395

Repayment of long term Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 420,240

Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year. 696,313

Change in Net Assets of Governmental Activities **\$ 3,002,803**

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Autonomous 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, economic development, education, and other miscellaneous services.

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34: "*Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments*" 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, 2002. 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.

A. 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 basic, but not the only criterion for including potential component units within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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

**Corporachin para el Desarrollo de la
Zona Libre de Ponce, C. D. (CODEZOL)**

Avenida Santiago de los Caballeros No.

1 Ponce, Puerto Rico 00731

**Corporachin Patronato para el Desarrollo
Cultural y Turístico de Ponce, C. D.**

(Patronato) El Vigia Street No. 17

Ponce, Puerto Rico, 00730

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

C. Measurement focus, basis of accounting and financial statement presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conforms to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources. 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.

Private-sector standards of accounting and financial reporting issue 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 Municipality has elected not to follow subsequent private-sector guidance.

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

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

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Capital Projects Fund -Capital Project Fund are used to account for financial resources used for the acquisition and construction of major capital facilities.

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.

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 US companies find skilled workers. Under the WIA fund there are the funds of The American Recovery and Reinvestment Act of 2009 ("ARRA"). ARRA is an economic stimulus package endorsed by the President of the United States of America, and approved by congress. Its immediate goals includes the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of "accountability and transparency in government spending".

Of the \$5,600 million granted to the Commonwealth of Puerto Rico, as one of the territories of the United States, the training and employment programs under the Workforce Investment Act of 1998 (WIA) received \$92,110,041 to promote activities related to the creation of job opportunities. The **Municipality of Ponce** integrates this kind of activities in its annual plan for the fiscal year 2008-2009 receiving a grant of \$3,409,605 that must be expended from February 2009 through June 30, 2011. This grant corresponds to fiscal year 2008-2009 and is distributed in the following programmatic concepts:

Youth Program	\$ 1,805,470
Adult Program	838,849
Dislocated Program	<u>765,286</u>
Total	<u>\$ 3,409,605</u>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

D. Measurement focus, basis of accounting and financial statement presentation

1. Cash and 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.

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

2. 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 3. Receivables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 4. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 5. 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 expended 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2009.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	20-50 years	\$1
Land Improvements	20-30 years	\$1
Infrastructure	20-50 years	\$1
Machinery and equipment	5- 20 years	\$25

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

6. Works of art and historical treasures- At June 30, 2009, the Municipality has the following work of art, historical treasures, and similar assets:

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 took the option not to capitalize work of arts and historical treasures by the patrimony value for future generations.

7. **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 prior incurring the qualifying expenditures.
8. **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.

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

- a) **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.
- b) **Federal Grants** - Represent the reservations of amounts available for specific use under federal grant programs.
- c) **Special Purpose** - Represent the reservations of amounts available for specific purpose provided by governmental entities and others.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- d) **Debt Service** - Represents net assets available to finance future debt service payments.
- e) **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.

10. Accounting for Pension Costs- For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the

Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

- 11. 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, 2009 amounted to approximately \$2.24 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.9 million for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.
- 12. Long-term obligations-** 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term obligations financed by components units are recorded as liabilities in the discretely presented component unit's column. In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

- 13. 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.

- 14. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.
- 15. 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 4% 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. These benefits are recorded as expenditures when paid in the general fund.
- 16. 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 17. Reclassifications to component unit's 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.
- 18. Future adoption of accounting pronouncements-** The Governmental Accounting Standards Board has issued the following statements that have effective dates after June 30, 2009:
- a. GASB Statement No.51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009.
 - b. GASB Statement No.53, Accounting and Financial Reporting for Derivative Investments, which is effective for periods beginning after June 15, 2009.
 - c. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2009, with early implementation encouraged.
 - d. GASB Concepts Statement No. 5, Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB: CS-2

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

19. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds", and that "capital assets used in governmental activities are not financial resources" and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

General and special obligations	\$ 141,032,000
Loan guarantee notes	3,845,000
Property tax advance -CRIM	77,083,115
LIMS Refinancing debt-CRIM	1,164,998
Property tax debt (2008-2009)	917,997
Interest due for accounts sold-CRIM	2,631,075
Claims and judgment	7,326,009
Compensated absences	<u>15,289,523</u>
Total	<u>\$ 249,289,717</u>

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

Total capital assets, net of accumulated depreciation	<u>\$ 347,589,974</u>
Deduct:	
Bond 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)	56,010,000
Ordinance (2004-05 Series)	9,240,000
Ordinance (2006-07 Series)	17,757,000
Ordinance (2007-08 Series)	26,100,000
Section 108 Loan Guarantee	<u>3,845,000</u>
Total	<u>\$ 202,712,974</u>

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor.

Custodial credit risk – In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$11,304,438 in the general fund, \$102,682 in the Health and Human Services Grants, \$52,992 in the Workforce Investments Act Grants, \$4,202,012 in the Housing Urban Development Grants and \$1,120,284 in the others governmental funds were fully collateralized at June 30, 2009.

The deposits at GDB of \$5,892,993 in the general fund, \$12,661,163 in the capital projects fund - loan \$26.1 M, \$9,196,985 in the debt service fund and \$44,435 in the others governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax* - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2009, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

Accounting receivable – net of allowance for uncollectible accounts as of June 30, 2009, consists of the following:

	Gross Amount	Allowance	Net Amount
Municipal license tax	\$ 230,909	\$ 23,091	\$ 207,818
Sales tax	\$1,683,826	\$ 177,973	\$ 1,505,853

4. DUE FROM GOVERNMENT

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

	Amount
Local governments:	
Aqueduct and Sewer Authority	\$ 1,445,000
Investment on Our Infrastructure (PINI)	2,116,320
El Tuque Satellite Center	27,750
Treasury Department-IVU	382,537
Total due from local government	\$ 3,971,607
Federal governments:	
FEMA	\$ 220,056
Homeland Security	53,790
El Tuque Satellite Center	14,528
Bulletproof Best Partnership	42,817
Homeland Security	40,239
HHS Funds - Ryan White	394,115
HHS - Head Start	27,738
HUD - CDBG	3,770,384
HUD - HOME	64,825
HUD - Emergency Shelter	2,462
Workforce Investment Act Grant - WIA	5,867,452
Total due from federal government	\$ 10,498,406

5. INTERFUND TRANSACTIONS

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

a. Due from other funds

General Fund	Amount	Purpose
Local Law Enforcement	\$ 28,413	Reimbursable expenditures
CDBG	217,021	Reimbursable expenditures
WIA	60,387	Reimbursable expenditures
Ryan White	50,375	Reimbursable expenditures
FEMA	65,100	Reimbursable expenditures
Others	386,427	Reimbursable expenditures
Total	\$ 807,723	

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. INTERFUND TRANSACTIONS (CONTINUED)

<u>HUD grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ <u>148,342</u>	Reimbursable expenditures
Sub-total HUD grants	\$ <u>148,342</u>	
 <u>HHS grants</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ <u>904,296</u>	Reimbursable expenditures
Sub-Total HHS grants	\$ <u>904,296</u>	
 <u>Others</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ <u>4,351</u>	Reimbursable expenditures
Sub-total Others	\$ <u>4,351</u>	
 Total	 \$ <u>1,864,712</u>	

b. Due to other funds

<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
Head Start	\$ 903,690	Reimbursable expenditures
Ryan White	551	Reimbursable expenditures
Child Care	55	Reimbursable expenditures
Project " San Antonio"	1,379	Reimbursable expenditures
HOME	677	Reimbursable expenditures
Others	<u>221,085</u>	Reimbursable expenditures
 Sub-total general fund	 \$ <u>1,127,437</u>	
 <u>HUD grants</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 238,357	Reimbursable expenditures
Infrastructure Fun d	150	Reimbursable expenditures
Others	<u>4,553</u>	Reimbursable expenditures
 Sub-total general fund	 \$ <u>243,060</u>	

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. INTERFUND TRANSACTIONS (CONTINUED)

<u>Others</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 304,459	Reimbursable expenditures
Others	<u>2,954</u>	Reimbursable expenditures
Sub-total general fund	<u>\$ 307,413</u>	
 <u>HHS grants</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 50,375	Reimbursable expenditures
Others	<u>2,458</u>	Reimbursable expenditures
Sub-total general fund	<u>\$ 52,833</u>	
 <u>WIA</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 37,000	Reimbursable expenditures
Others	<u>23,387</u>	Reimbursable expenditures
Sub-total general fund	<u>\$ 60,387</u>	
 <u>Loan \$26.1 Million</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 28,413	Reimbursable expenditures
"Housing Development" Fund	<u>45,169</u>	Reimbursable expenditures
Sub-total general fund	<u>\$ 73,582</u>	
Total	<u>\$ 1,864,712</u>	

Interfund transfers between the general fund and debt service fund of approximately \$37,926 represent interest income were received from the additional special property tax.

6. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. CAPITAL ASSETS (CONTINUED)

Governmental Activities:	Balance July 1, 2008	Additions	Adjustments/ Retirements	Balance June 30, 2009
Capital asset, not being depreciated:				
Construction in progress	\$27,043,140	\$39,648,630	\$14,499,044	\$81,190,814
Land	47,903,768	965,596	-	48,869,364
Total capital assets not being depreciated	74,946,908	40,614,226	14,499,044	130,060,178
Capital assets, being depreciated:				
Buildings and building improvements	83,116,609	2,104,034	(3,273,223)	81,947,420
Land improvements	48,711,588	-	(17,708,176)	31,003,412
Infrastructure	120,387,001	4,561,509	2,427,501	127,376,011
Machinery and equipment	44,323,357	1,021,567	102,675	45,447,599
Total capital assets being depreciated	296,538,555	7,687,110	(18,451,223)	285,774,442
Less accumulated depreciation for:				
Buildings and building improvements	(10,404,422)	(1,503,354)	298,109	(11,609,667)
Land improvements	(1,350,202)	(718,402)	-	(2,068,604)
Infrastructure	(24,130,346)	(2,258,449)	(1,340,371)	(27,729,166)
Machinery and equipment	(26,794,369)	(143,056)	100,216	(26,837,209)
Total accumulated depreciation	(62,679,339)	(4,623,261)	(942,046)	(68,244,646)
Total capital assets being depreciated, net	233,859,216	3,063,849	(19,393,269)	217,529,796
Governmental activities capital assets, net	\$308,806,124	\$43,678,075	(\$ 4,894,225)	\$347,589,974

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 1,810,201
Public safety	171,754
Public works	1,498,761
Health and welfare	135,085
Culture and recreation	849,751
Urban development	80,167
Education	<u>77,542</u>
Total depreciation expense-governmental activities	<u>\$ 4,623,261</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

<u>Funds</u>	<u>Accounts Payable</u>	<u>Accrued Liabilities</u>	<u>Total</u>
General fund	\$16,901,214	\$ -	\$ 16,901,214
Capital Projects fund-Loan \$26.1M	6,875,981		6,875,981
HHS program	662,668	203,578	866,246
WIA program	158,672	122,123	280,795
HUD program	542,193	142,936	685,129
Other governmental funds	<u>666,163</u>	<u>396,742</u>	<u>1,062,905</u>
Total on balance sheet	<u>\$25,806,891</u>	<u>\$ 865,379</u>	26,672,270
Plus: obligation paid with CAE funds			<u>5,485,000</u>
Total on statement of net assets			<u>\$ 32,157,270</u>

8. 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. PROPERTY TAXES (CONTINUED)

The assessment is made as of January 1 of each year and is based on estimated current values of the real property as of year 1957.

The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date. The rates are 8.33% for real property and 6.33% for personal property. The composition is as follows:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.50%	2.50%
Discounts made by state to taxpayer	<u>(.20%)</u>	<u>(.20%)</u>
	<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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. PROPERTY TAXES (CONTINUED)

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, 2009, presented as non current liabilities in the government-wide financial statements amounted to approximately \$78 millions of which \$917,997 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2009. See information regarding property tax claim made by the Municipality to CRIM in Note 14.

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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. PROPERTY TAXES (CONTINUED)

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.

9. 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, 2007. 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:

- a. Financial institutions - 1.50% of gross revenues
- b. Other organizations - .30% for annual sales up to \$500,000 and, 50% over such volume.

10. 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 "Leon 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. The Municipality collected \$16,311,490 during the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. DUE TO OTHER GOVERNMENTAL

The amounts due to other governmental entities in the total governmental funds include the following:

<u>Governmental Entity</u>	<u>Amount</u>
General Services Administration	\$ 19,678
Retirement System Administration	4,363,960
Internal Revenue Service	24,180
Puerto Rico Electric Power Authority	2,214,412
Puerto Rico Aqueduct and Sewer Authority	2,749,542
Puerto Rico Building Authority	2,874,773
Governmental Development Bank	17,426
Department of Labor-Unemployment Program	48,570
Commonwealth of Puerto Rico Employee Association	170,448
US Housing and Urban Development	708,235
US Department of Health and Human Services	780,036
Total	<u>\$13,971,260</u>

12. INTERGOVERNMENTAL REVENUES

Following is detail of intergovernmental revenues:

<u>Federal agencies:</u>	<u>Amount</u>
Department of Housing Urban Development - Home Devolution	\$ 27,950
Health and Human - Ryan White	2,000,747
Health and Human - Head Start	12,285,594
Department of Labor - Workforce Investment Act	9,983,885
Dept. of Housing Urban Development - Emergency Shelter	220,968
Dept. of Housing Urban Development - CDBG - Entitlement	5,156,948
Dept. of Housing Urban Development - Section 8 Choice Voucher	9,815,791
Dept. of Housing Urban Development - Moderate I and II	261,869
Dept. of Housing Urban Development - Home Investment Partnership	2,146,179
Department of Agriculture - USDA	794,767
FEMA	149,120
Department of Justice - Cops Inter-operability Community Grant	11,828
Department of Justice - Homeland Security	1,262,040
Department of Justice - Bullet proof Best Partnership	8,306
Department of Urban Development Municipal Bank (CDBG loans)	48,941
Others	<u>539,655</u>
Total governmental funds	<u>\$ 44,714,588</u>
<u>State agencies:</u>	
Communities Rehabilitations Projects - Special Communities Trust	\$ 989,000
Puerto Rico Department of Natural Resources	7,032,054
Puerto Rico Electric Power Authority	9,957,216
Subsidy and Lottery of Puerto Rico - CRIM	3,357,012
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures	1,354,954
Investment on Our Infrastructure (PINI)	2,111,111
Legislative Joint Resolutions	1,359,883
Rural Development Projects	820,000
School Infrastructure Development	791,398
Others	<u>3,878,266</u>
Total governmental funds	<u>\$ 31,650,894</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$16,137,994 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

B. Federal Grants- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Head Start-Child Care	\$ 50
Home Devolution	4,754
UDAG	<u>533</u>
Total	<u>\$ 5,337</u>

14. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Description</u>	<u>Beginning Balance as restated</u>	<u>Borrowings Or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 76,892,000	\$ -	\$(4,150,000)	\$72,742,000	\$4,480,000
General refunding obligation Bonds	9,770,000		(255,000)	9,515,000	265,000
Special refunding obligations bonds	22,520,000		(740,000)	21,780,000	775,000
Special obligation bonds	11,210,000		(315,000)	10,895,000	335,000
Special obligation bonds IVU Loan guarantee assistance		26,100,000		26,100,000	415,000
(LGA) notes	4,785,000		(940,000)	3,845,000	540,000
Property tax advance- CRIM	71,362,100	5,721,015		77,083,115	
LIMS Refinancing debt-CRIM	1,585,238		(420,240)	1,164,998	508,402
Property tax debt		917,997		917,997	
Interest due for accounts sold- CRIM	2,745,470		(114,395)	2,631,075	278,047
Claims and judgment	6,797,936	866,894	(338,821)	7,326,009	1,818,947
Compensated absences	<u>15,985,836</u>	<u>478,701</u>	<u>(1,175,014)</u>	<u>15,289,523</u>	<u>1,510,000</u>
Total long term debt	<u>\$223,653,580</u>	<u>\$34,084,607</u>	<u>\$(8,448,470)</u>	<u>\$249,289,717</u>	<u>\$10,925,396</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** 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 plus balance of the ad valorem taxes in the debt service fund, 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. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

2. **Bonds Payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2009 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2009
1997 Series	7-1-12	\$11,265,000	4.86% to 6.75%	\$3,395,000
1999 Series	7-1-14	3,020,000	4.86% to 6.11%	1,385,000
2001 Series	7-1-25	31,765,000	2.70% to 6.13%	27,145,000
2004 Series	7-1-23	16,295,000	1.56% to 6.50%	13,820,000
2004 Series	7-1-29	10,650,000	2.25% to 5.55%	9,515,000
2004 Series	7-1-29	13,250,000	2.25% to 5.55%	11,800,000
2004 Series	7-1-23	12,020,000	2.45% to 5.50%	9,980,000
2004 Series	7-1-28	8,015,000	2.45% to 5.60%	6,960,000
2004 Series	7-1-28	4,535,000	2.45% to 5.60%	3,935,000
2005 Series	7-1-15	14,055,000	2.43% to 7.00%	9,240,000
2007 Series	7-1-31	10,565,000	1.41% to 6.50%	10,361,000
2007 Series	7-1-22	7,542,000	1.41% to 6.50%	7,396,000
2008 Series	7-1-33	26,100,000	2.43% to 7.50%	26,100,000
Total general obligation bonds				\$ 141,032,000

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

Year Ending June 30,	Principal	Interest
2010	\$6,270,000	\$6,755,580
2011	6,752,000	8,002,206
2012	7,244,000	7,592,183
2013	6,424,000	7,187,004
2014	6,903,000	6,787,617
2015-2019	32,181,000	28,181,054
2020-2024	38,498,000	17,382,483
2025-2029	26,439,000	7,431,621
2030-2034	10,321,000	1,496,283
Total	\$ 141,032,000	\$90,816,031

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. LONG-TERM LIABILITIES (CONTINUED)

3. **Special obligation bonds (IVU)** – The Series 2008, amounting \$26,100,000 is payable with the revenues generated from the collection of the .3% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.
4. **Loan guarantee assistance notes (LGA)** – These notes are payable in annual aggregate principal installments of \$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 at June 30, 2009 is \$3,845,000.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending June 30,	Principal	Interest
2009-2010	\$ 540,000	\$ 133,119
2010-2011	540,000	117,648
2011-2012	545,000	99,877
2012-2013	545,000	81,094
2014-2018	1,675,000	107,840
Total	\$ 3,845,000	\$ 539,578

5. **LIMS Repayment Plan**- During the fiscal year 2000-2001 the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$3,790,626 is to be retained in ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2009, the outstanding balance is \$1,164,998. This amount is presented in the government-wide financial statement.
6. **Claims and judgments**- The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred. At June 30, 2009, the outstanding balance is \$15,289,523. This amount is presented in the government-wide financial statement.
7. **Compensated absences**- The government-wide statement of net assets includes approximately \$15,200,000 of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

15. RETIREMENT PLAN

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.

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

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

15. RETIREMENT PLAN (CONTINUED)

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, 2009 was approximately \$3.6 millions. The Municipality total payroll for all employees was approximately \$55 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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

16. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

17. 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, 2009, amounted to approximately \$1.1 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, 2009 of approximately \$39.6 millions for the construction, improvements, or renovation of several municipal facilities.

18. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2009, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

18. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER (CONTINUED)

B. Claims and lawsuits

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 \$7.32 millions at June 30, 2009.

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.

Municipality of Ponce vs. "CRIM"

On June 29, 2000, the Municipality filed an administrative complaint against CRIM, whereby it was questioning CRIM's collection of \$35,589,383. On December 10, 2004, the examining officer's report was adopted by CRIM and MAP's complaint was dismissed. As a result, the Municipality had to pay CRIM \$50,660,429.55 plus a 6.5% yearly interest rate. The CRIM ruled once more against the Municipality and held the latter owed CRIM the sum of \$50,744,645 plus interest. The Municipality appealed before the Puerto Rico Court of Appeals. Finally, the CRIM filed a petition for certiorari before the Puerto Rico Supreme Court, which decided to entertain the case. As a result, CRIM filed its appeal brief on August 3, 2009 and the Municipality filed its brief on October 1, 2009, after requesting and obtaining an extension of time. The case is now before the Puerto Rico Supreme Court.

19. CLOSURE AND POST CLOSURE CARE COST 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, 2009, revenues earned under the agreement amounted to \$2.2 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

19. CLOSURE AND POST CLOSURE CARE COST AND LANDFILL OBLIGATIONS (CONTINUED)

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, 2009, the estimated remaining life was approximately 7.5 years.

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

The agreement includes the extension and amendment of lease of land common and structures known as "Facilidades del Garage El Tuque" for a period of five (5) years from July 1, 2004 to June 30, 2009. In addition, the contractor is liable to comply with laws, rules, municipal ordinances, regulations of JCA (Junta de Calidad Ambiental) and EPA (Agencia Federal de Proteccion 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.

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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

20. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Funds	Fund Balance Beginning	Prior Period Adjustment	Fund balance beginning as restated
General Fund	(\$5,393,739)	\$ 978,838	(\$ 4,414,901)
Capital Projects Fund-Loan \$26.1M	-	-	-
HHS Grants	371,223	144,710	515,933
Work force Investment Act Grants	59,033	1,968,934	2,027,967
Debt Service Fund	3,792,964		3,792,964
HUD Grants	5,676,121	1,175,287	6,851,408
Others Funds	<u>(172,421)</u>	<u>208,492</u>	<u>36,071</u>
Fund balance, beginning as, restated	<u>\$ 4,333,181</u>	<u>\$ 4,476,261</u>	<u>\$ 8,809,442</u>

B. GOVERNMENTAL-WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental-wide financial statements, which are reported as an adjustment to beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 94,281,762
Corrections in accounting transactions	4,476,261
To adjust the long-term debt liability	<u>(4,796,037)</u>
Net assets, beginning as, restated	<u>\$ 93,961,986</u>

21. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

21. SUBSEQUENT EVENTS (CONTINUED)

As part of this plan, the **Municipality of Ponce** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

On September 14, 2009, the Municipal Legislature approved the issuance of a special obligation bond for the amount of \$15,860,000, for operational activities.

On December 6, 2009, the **Municipality of Ponce** realized a payment plan for the amount of \$1,018,309, during the fiscal year 2009-2010. The **Municipality of Ponce** executed an agreement with Puerto Rico Aqueduct and Sewer Authority.

On December 14, 2009, the Municipal Legislature branch approved the Joint Resolution 105, 2009-2010 Series, to impose payment plan for the amount of \$2,668,001. The agreement of the payment plan between the **Municipality of Ponce** and Retirement System Administration, by concept of benefits granted to the pensioners during the fiscals years 2002-2010.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 32,521,349	\$ 32,521,349	\$ 31,021,349	\$ (1,500,000)
Municipal license tax	21,589,779	21,589,779	19,176,555	(2,413,224)
Sales tax	13,630,001	13,630,001	13,671,861	41,860
Licenses, permits and other local taxes	15,952,166	15,952,166	13,219,771	(2,732,395)
Royalties and others	2,475,583	2,475,583	2,205,306	(270,277)
Charges for services	1,075,001	1,075,001	602,380	(472,621)
Intergovernmental	15,008,669	15,008,669	14,885,285	(123,384)
Fines and forfeiture	1,200,000	1,200,000	1,305,258	105,258
Rent of property	743,170	743,170	511,748	(231,422)
Interest	2,156,220	2,156,220	1,042,177	(1,114,043)
Miscellaneous	<u>9,426,432</u>	<u>9,426,432</u>	<u>6,934,759</u>	<u>(2,491,673)</u>
Total revenues	<u>115,778,370</u>	<u>115,778,370</u>	<u>104,576,449</u>	<u>(11,201,921)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	55,566,220	53,812,764	55,816,608	(2,003,844)
Public safety	14,000,076	13,254,808	13,234,811	19,997
Public works	25,461,989	25,461,989	21,208,930	4,253,059
Health and welfare	9,701,634	9,701,634	9,701,634	-
Culture and recreation	7,613,590	8,583,246	8,349,450	233,796
Claims and losses	1,572,303	3,101,371	3,039,654	61,717
Principal retirement and interest	<u>1,862,558</u>	<u>1,862,558</u>	<u>1,862,558</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>\$ 115,778,370</u>	<u>\$ 115,778,370</u>	<u>113,213,645</u>	<u>2,564,725</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			<u>\$ (8,637,196)</u>	<u>\$ (8,637,196)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$104,576,449
Differences-budget to USGAAP:				
Non-budgeted revenues				<u>(1,164,434)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$103,412,015</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$113,213,645
Differences-budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for USGAAP basis				877,355
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,603,544)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$112,487,456</u>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2009

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, 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 fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S DEPARTMENT OF AGRICULTURE			
<u>Pass-through Commonwealth of Puerto Rico - Education Department</u>			
Child Care and Adult Food Program	10.558	CCC-049	\$ 794,767
Total U.S. Department of Agriculture			<u>794,767</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<u>Direct Programs:</u>			
Community Development Block Grant - Entitlement Grants	14.218		5,283,078
Emergency Shelter Grants Program	14.231		236,850
Home Investment Partnerships Program	14.239		2,174,129
Section 8 - Housing Choice Voucher	14.871		9,212,822
Section 8 - Project - Based Cluster:			
Lower Income Housing Assistance Programs:			
Section 8 - Moderate Rehabilitation I	14.856		<u>19,753</u>
Total U.S. Department of Housing And Urban Development			<u>16,926,632</u>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR:			
<u>Pass-through programs:</u>			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258		2,242,371
Youth Activities	17.259		1,203,075
Dislocated Workers	17.260		2,142,944
Total Workforce Investment Act			<u>5,588,390</u>
American Recovery and Reinvestment Act of 2009:			
ARRA-Adult Program	17.258		76,234
ARRA-Youth Activities	17.259		751,384
ARRA-Dislocated Workers	17.260		16,583
Total American Recovery and Reinvestment Act of 2009			<u>844,201</u>
Total U.S. Department of Labor			<u>6,432,591</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<u>Direct programs:</u>			
Administration for Children, Youth and Families - Head Start			
	93.600		15,863,386
HIV Emergency Relief Project Grants			
	93.914		2,000,747
Total U.S. Department of Health and Human Service			<u>17,864,133</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF JUSTICE:			
<u>Pass through programs:</u>			
Bulletproof Vest Partnership grant	16.607		51,123
Anti-gang Initiative	93.914		26,787
Total U.S. Department of Justice			77,910
U.S. DEPARTMENT OF HOMELAND SECURITY:			
<u>Pass through Programs:</u>			
Commonwealth of Puerto Rico of Justice:			
Homeland Security Int. Co. Equipment	97.055		687,050
Homeland Security Grant Program	97.067		384,167
Homeland Security and Law enforcement Terrorism	97.074		53,790
Homeland Security and Law enforcement Terrorism-Emergency - Personnel Protective Equipment	97.074	2006-GE-T6 - 0021	269,632
Port Security Grant Program	97.056		168,554
Total U.S. Department of Homeland Security			1,563,193
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 43,659,226

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal award is a summary 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 information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The reconciliation of expenditures in the basic financial statements to the schedule of expenditures of federal awards is as follows:

	Expenditures
Total federal expenditures per schedule	\$ <u>43,659,226</u>
Federal expenditures per basic financial statements included herein:	
Housing and Urban Development Grants	\$ 16,926,632
Health and Human Services Grants	17,864,134
Workforce Investment Act Grants	6,432,591
Others	<u>2,435,869</u>
Total	\$ <u>43,659,226</u>

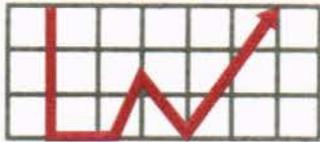
3. SUBRECIPEINTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2009, **the Municipality** provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 1,670,043
Community Development Block Grant (CDBG) - Entitlement (14.218)	863,182
Others	<u>221,784</u>
Total	\$ <u>2,755,009</u>

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2009, **the Municipality** paid the amount of \$ 940,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



López-Vega, CPA, PSC

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

**To the Honorable Mayor
and the Municipal Legislature
Autonomous 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 **Autonomous Municipality of Ponce, Puerto Rico, (Municipality)** as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 29, 2009, which was unqualified. 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 **Autonomous Municipality of Ponce's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Autonomous Municipality of Ponce's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Ponce'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 **Autonomous Municipality of Ponce'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 **Autonomous Municipality of Ponce's** financial statements that is more than inconsequential will not be prevented or detected by **Autonomous Municipality of Ponce's** internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **09-01** thru **09-04** 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 **Autonomous Municipality of Ponce's** internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, of the significant deficiencies in internal control over compliance described above, we consider items **09-01** thru **09-03** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous Municipality of Ponce'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 **09-01** thru **09-03**.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 25, 2010.

This report is intended solely for the information and use of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2010

Stamp No. 2407060 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors



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

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

Compliance

We have audited the compliance of the **Autonomous Municipality of Ponce** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The **Autonomous Municipality of Ponce'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 **Autonomous Municipality of Ponce's** management. Our responsibility is to express an opinion on the **Autonomous Municipality of Ponce's** compliance based on our audit.

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

As described in items in **09-01** thru **09-25** 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. 93.604**) HIV Emergency Relief Project Grant (**CFDA No. 93.914**), 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.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
REQUIRED OMB-CIRCULAR A-133 (CONTINUED)**

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, 2009.

Internal Control Over Compliance

The management of the **Autonomous Municipality of Ponce** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Autonomous Municipality of Ponce's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 **Autonomous Municipality of Ponce'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 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; **09-05** thru **09-25** to be significant deficiencies.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
REQUIRED OMB-CIRCULAR A-133 (CONTINUED)**

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 **09-05, 09-06, 09-07, 09-09, 09-10, 09-11, 09-12, 09-14, 09-17, 09-18, 09-20, 09-22, and 09-23** to be material weaknesses.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 25, 2010.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2010

Stamp No. 2407078 of the Puerto Rico
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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	Yes <input checked="" type="checkbox"/> No
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	Yes <input checked="" type="checkbox"/> No

Federal awards

Internal Control over major programs:	
Material weakness identified?	Yes <input checked="" type="checkbox"/> No
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/> None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified , except for qualified for Head Start Program (93.600), HIV Emergency Relief Project (93.914), Section 8 Housing Choice Vouchers (14.871)
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/> No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Program
14.239	Home Investment Partnership Program
14.871	Section 8 Housing Choice Vouchers
	Work force Investment Act Cluster:
17.258	Adult Program & ARRA Adult Program
17.259	Youth Activities & ARRA Youth Activities
17.260	Dislocated Workers & ARRA Dislocated Workers
93.600	Head Start Program
93.914	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish Between Type A and Type B programs	\$1,305,930
Auditee qualified as low-risk auditee?	Yes No <input checked="" type="checkbox"/>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

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

Finding Reference **09-01**

Requirement **Operating deficit of general fund (MW)**

Statement of Condition As of June 30, 2009, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$41,198,055 in the general fund as presented in the balance sheet-governmental funds. Also, this is the second consecutive fiscal year that the Municipality closed current operations reporting a deficit. The deficit was caused by the overstatement of estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts.

Criteria Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) 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.

Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.

Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.

Cause of Condition The overstatement of estimated revenues and/ or the incurrence of obligations without credit available in approve budgetary accounts caused the Municipality to operate with a deficit for a second consecutive year.

Effect of Condition The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference **09-01 (Continued)**

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.

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality of Ponce implemented measurements to control the expenditures to decrease the accumulated deficit.

On July 2009, the Municipality implemented the policy of reduced journey, which consisted in reducing to all employees, two (2) labor days per month and 5% of reduction in the salaries of Department Directors. With this measurement the Municipality will obtain savings in payroll expenditures and fringe benefits of 4.5 million dollars approximately.

Also, our Municipality increased the Real and Personal Property Tax rate beginning in the fiscal year 2009-2010. This measurement represented additional resources of 6 million dollars approximately.

The Finance and Budget Department established an aggressive debt collection plan, in order to obtain additional resources of income related to municipal licenses tax, property tax, and construction's permits.

The provision for deficit reserve account corresponding to the new fiscal year 2010-2011 will be increased. The amount assigned in the prior fiscal year budget was \$100,000.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II - Financial Statements Findings

Finding Reference	09-02
Requirement	Financial Reporting - Accounting Records (MW)
Statement of Condition	During our examination of the Municipality's accounting system, we noted that the computerized accounting system does not provide for adequate and effective financial information. As a consequence, the Finance and Budget Department personnel use, spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.
Criteria	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Law, indicates that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by governmental accounting standard board.
Cause of Condition	The use of funds from a fiscal year to cover expenditures not registered and incurred in prior fiscal years distort the legislative purpose to operate governmental entities through an approved budget. This situation has the effect of decreasing the Municipality's Resources to attend fiscal issues from prior years. Also, the Municipality did not establish effective internal control over the transactions recorded on its accounting records.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position. Also, 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 that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference **09-02 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Finance and Budget Department and the Information Systems Department will establish the necessary internal control procedures to assure that the accounting system contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions and other relevant data and reports.

Still in process

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director. And Mr. Carlos Colón, Director of the Information System Department

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference	09-03
Requirement	Municipal license tax revenues (MW)
Statement of Condition	Municipal license tax revenues of the fiscal year 2009-2010, which were collected in advance from taxpayers between January 1 and June 30, 2009 (known in Spanish as "Patente en Suspenso"), 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, 2009. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2009-2010, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, by 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 of Condition	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 of Condition	This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues were used to pay for accumulated liabilities
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.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II - Financial Statements Findings

Finding Reference 09-03 (Continued)

Questioned Costs None

Management Response
and Corrective Action

We expect that with the implementation of the corrective actions described in the finding number 1, the preparation of a cash flows forecasts and projections to anticipate any cash flows shortages and other measurements that our financial consultants can recommend us, avoid the use of the license tax revenues collected in advance, in future fiscal years.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Ramona Pacheco, Finance and Budget
Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II - Financial Statements Findings

Finding Reference	09-04
Requirement	Head Start Program
Statement of Condition	The Municipality have a loan debt with the Federal Agency (U.S. Department of Health and Human Services) by the amount of \$780,034 (principal due \$656,767 and interest due \$123,267) that has not been paid at the close of the audited fiscal year, June 30, 2009. According to the federal agency, the funds must be reimbursed from non-federal sources.
Criteria	<p>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.</p> <p>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. ID. The date from which interest is computed is not extended by litigation or the filing of any form of appeal.</p>
Cause of Condition	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.
Effect of Condition	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 sill 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II – Financial Statements Findings

Finding Reference **09-04 (Continued)**

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.

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality recorded the debt in its accounting records for fiscal year ended June 30, 2009. At November 2009, a repayment agreement was signed between the Municipality of Ponce and the Health and Human Services Program Support Center. The Municipality agreed to make monthly payments of at least \$ 11,442.71, beginning in November 2009.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Ramona Pacheco, Finance and Budget
Director

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program 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 A-133 Compliance Supplement.)

Finding Reference	09-05
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Cash Management (C) (MW)
Statement of Condition	<p>We performed the Cash Management test and after our procedures we found the following exceptions:</p> <ul style="list-style-type: none">a. Sixteen (16) requisitions of funds did not include the signature of the responsible officer who prepared the request.b. Three (3) requisitions of funds did not include the signature of the Program Officer who verified and approved the request.c. Ten (10) requisitions of funds were not approved by the person authorized in the HHS Payment Management System.d. The bank reconciliations, shows average monthly cash balance of \$25,500. The cash balance shows a higher cash balance in the following months:<ul style="list-style-type: none">1) July 2008 \$ 47,3172) August 2008 43,4383) September 2008 43,4384) November 2008 37,7995) May 2008 40,2246) June 2009 40,948
Criteria	<p>45 CFR Part 92, Subpart C, Section 92.20 (b) (3), <i>Internal control</i>. 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.</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-05 (Continued)**

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.

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. 11). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

Cause of Condition The Program did not maintain effective internal control over cash management procedures in order to monitor the cash balance, and prepare and approve the requisitions of funds.

Effect of Condition The Program is not in compliance with the OMB Common Rules, Subpart C, Section .20 (b) (7) and with the 45 CFR Part 92, Subpart C, Section 92.20 (b) (3).

Recommendation The Program should establish internal controls policies to improve its procedures to comply with the cash management federal regulation.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 09-05

Questioned Costs None

Management Response

And Corrective Action The Program Director will instruct to the officer responsible of preparing the request of fund form about the necessity of sign all requests prepared. (Item 1)

The request of fund form will be reviewed to include the signature of the program officer who verify and approve the requests. (Item 2)

The Program Director will request the certification to authorize the new hired Fiscal Officer to enter in the HHS Payment Management System to process the request of funds.

The Fiscal Officer will evaluate the causes of the indicated high cash balances in order to determine the adequate corrective action to reduce such balances.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Maria A. Ruiz, Program Director and Mr. José Dávila, Fiscal Officer

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-06
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Participants' Eligibility (E) (MW)
Statement of Condition	<p>We have performed an Eligibility test to forty (40) participants' files and noted the following exceptions:</p> <ol style="list-style-type: none">1. For sixteen (16) cases the program staff did not request the family all the necessary information and documentation to properly evaluate the eligibility of the candidates.2. In two (2) cases the information and documentation of the family was not properly evaluated by the program staff, who failed to classify the candidates as above the poverty income guidelines.
Criteria	<p>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.</p> <p>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.</p>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-06 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.
Cause of Condition	The Program controls and procedures failed to assure a uniform evaluation of all candidates.
Effect of Condition	The program is not in compliance with 45 CFR Part 1305.
Recommendation	The Program staff should take the appropriate actions to correct the conditions indicated above to achieve compliance with the program's requirements. In addition, procedures should be strengthened to ensure eligibility process is adequately documented and participants are correctly classified.
Questioned Costs	None
Management Response And Corrective Action	The Program Director will instruct the personnel who evaluate the participants eligibility about the necessity to require the information and documentation and to use properly income guidelines to perform an adequate evaluation of each case. The existing checklist will be evaluated to assure that necessary information is included and documented. Still in Process Implementation Date: During Fiscal Year 2010-2011 Responsible Person: Mrs. Maria A. Ruiz, Program Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-07
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Equipment and Real Property Management (F) (MW)
Statement of Condition	We performed audit procedures over the Property Subsidiary Ledger, and we found the subsidiary was not updated. On our test, over ninety seven (97) additions of equipments of less than \$5,000, eighty two (82) items were not at the location indicated in the Subsidiary 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 of Condition	The Program staff 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 of Condition	The Program is not in compliance with the 45 CFR Part 92.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-07 (Continued)**

Recommendation The Program staff 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

**Management Response
And Corrective Action** The employee who is in charge of the program property will determine the actual location of the property and will update the information in the Property Subsidiary Ledger.

Partially Corrected

Implementation Date: During fiscal year 2010-2011

Responsible Person: Mr. Wilfredo Rodriguez, Property Supervisor and
Mrs. María Ruiz, Program Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-08
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)
Statement of Condition	The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.
Criteria	45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures 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 restriction and prohibitions of applicable statutes.
Cause of Condition	The program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures.
Effect of Condition	The program is not in-compliance with 45 CFR, Subpart C.
Recommendation	We recommend management to modify the accounting system chart of accounts to create separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response And Corrective Action	The Fiscal Officer and his personnel will review the chart of accounts and will classify the expenditures as administrative or programmatic according of the nature of the expenditures. Still in Process Implementation Date: During Fiscal Year 2010-2011 Responsible Person: Mr. José Dávila, Accounting Supervisor, Mr. Narciso Alvarez, Accountant and Mrs. Maria A. Ruiz, Program Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-09
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Period of Availability of Federal Funds (H) (MW)
Statement of Condition	During our test of over forty (40) disbursement vouchers, we noted that seven (7) disbursements were paid 90 days after the close of the grant award. We did not obtain evidence of Agency waiver to extent deadline.
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 of Condition	The Program does not have an effective internal control which can demonstrate and monitor all of its obligations which are outstanding for payments at the end of the period of availability of the federal grant award.
Effect of Condition	The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.
Recommendation	We recommend that The Program 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	\$ 28,341
Management Response And Corrective Action	The Program Director will strengthen the internal control procedure over the disbursements in order to avoid the mentioned situation. Adequate coordination will be established with the Finance Department in order to obtain updated information related to purchase orders and disbursement vouchers issued and any unused purchase order balance or unpaid voucher, in order to improve our internal control procedures over the liquidation of the accounts payables.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 09-09 (Continued)

Management Response
And Corrective Action (Continued)

Still in Process

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Maria A. Ruiz, Program Director and Mrs.
Ramona Pacheco Finance and Budget Director.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-10
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Procurement and Suspension and Debarment (I) (MW)
Statement of Condition	<p>We have performed audit procedures to ten (10) contracts and noted the following exceptions:</p> <ul style="list-style-type: none">a. One (1) contract provision do not contain contractual legal remedies when contractor violates contract term, neither provide for such sanctions and penalties as may be appropriate.b. Two (2) contracts do not include provision for termination by grantee for default.c. Two (2) contracts do not include provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act.d. Two (2) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc.e. Two (2) contracts do not include provision for compliance with Energy Policy, and Conservation Act.f. Two contracts (2) do not include provision for compliance with the Copeland "Anti-kickback".g. Two (2) contracts do not include provision for retention of all required records for three years.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-10 (Continued)**

Criteria 45 CFR Parts 92, Subpart C, Section 92.36, (a), (b) (I), (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 (1), 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. (I) 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-10 (Continued)**

Cause of Condition The need 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 procurement process.

Effect of Condition The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.36.

Recommendation The Program should take the necessary actions required in the program's management in order to comply with the Federal and State laws. We recommend management to update contract sample according with the federal requirement.

Questioned Cost None

Management Response
And Corrective Action

The Program Director will establish adequate coordination with the Municipal Legal Services Office in order to assure that all contracts contains the required provisions and certifications.

Still in Process

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. Maria A. Ruiz, Program Director

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-11
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Accounting Records (L) (MW)
Condition	During our test over the accounting management system, we detected that the Program is not spending federal funds according to the approved budget, resulting in obligations in excess of the available funds. In addition, The Municipality had to absorb all pending obligations issued in excess of the established budget.
Criteria	<p>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.</p> <p>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.</p>
Cause of Condition	The Program does not have an effective monitoring on the approved budget, obligations and expenditures.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-11 (Continued)**

Effect of Condition The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.20.

Recommendation Management should take necessary step on the evaluation of the budget and actual expenditures. The Program must give financial training to the accountants in charge in the preparation of budget and financial report to ascertain that (1) the accounting system comply with state and federal law, (2) the budget is prepared according to realistic needs and is expended as established. In addition, The Program should implement internal control procedures to assure that the use of Federal funds is restricted.

Questioned Cost None

Management Response
and Corrective Action

The Program Director will be rigorous in maintaining adequate control over the budget in order to avoid obligation in excess of the approved budget during the current budgetary year.

Also, the Program Director will acquire a new accounting system program software, which will serve as useful tool to budget control and to maintain adequate accounting records to assure a fairly presentation of the program financial position and its results of operations.

Partially Corrected

Implementation Date: During Current Budgetary Year

Responsible Person: Mr. José Dávila Accounting Supervisor and Mrs. María A. Ruiz Program Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-12
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Reporting - Financial Administration (L) (MW)
Statement of Condition	<p>During our audit, we noted that the Program did not maintain an adequate set of accounting records for Head Start Program to fairly present the financial position of the program and results of its operations.</p> <p>In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report submitted to the federal agency and the amounts detailed in the trial balance and the general ledger. As result, the financial reports do not agree with the program accounting records.</p>
Criteria	<p>The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.</p>
Cause of Condition	<p>Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.</p>
Effect of Condition	<p>The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-12 (Continued)**

Recommendation We recommend the Program to establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The program fiscal area must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. The Program fiscal area must assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. In addition, the accountant must assure that the cash register and the general ledger are duly reconciled and journal entries posted in the general ledger are duly documented and explained. We consider that the Program Director must evaluate the implementation of a computer accounting software to maintain the program books. Due to the large volume of transactions manual books are considered inefficient.

Questioned Costs None

Management Response and Corrective Action As indicated in the preceding finding, the Program Director will acquire a new accounting system program software, which will serve as useful tool to budget control and to maintain adequate accounting records to assure a fairly presentation of the program financial position and its results of operations.

Partially Corrected

Implementation Date: During Current Budgetary Year 2010-2011

Responsible Person: Mr. José Dávila, Accounting Supervisor and Mrs. María A. Ruiz, Program Director

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AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-13
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Accounting Management System (L)
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 09-04

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-14
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Cash Management (C) (MW)
Statement of Condition	During our cash management test, we noted the following situations: <ul style="list-style-type: none">a. Two (2) fund requisitions were made in excess of program needs;b. The program maintains old balances that have not been used;c. The program maintained an average monthly cash balance of \$53,510.14 during the fiscal year 2008-2009.
Criteria	<p>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 sub grantee, in accordance with Treasury regulations at 31 CFR Part 205. Advance, Grantees and sub grantees 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.</p> <p>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 sub grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub grantees 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 drawdown's as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their sub grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-14 (Continued)**

Cause of Condition 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 elapsing time for disbursement.

Effect of Condition 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 disburses funds within the time constraints imposed by the federal requirement and avoid held excessive cash balance in bank account.

Questioned Costs None

**Management Response
and Corrective Action** The Program have taken appropriate measurements to assure the disbursement of the requested funds with the established time by the applicable regulation.

The Finance Director will assign a person to monitor the funds requested by all federal programs in order to assure that the funds received be disbursed on a reasonable lapse of time. This measurement will contribute to decrease the average monthly cash balance in the next fiscal year.

The Municipality is evaluating the causes of the indicated unused old cash balances in order to determine the adequate corrective action to eliminate such balances.

Partially Corrected

Implementation Date: During Fiscal Year 2009-2010

Responsible Person: Mrs. María M. Rivera Program Director
Mrs. Miriam Blanco, Administrative Assistant

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AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-15
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Earmarking – Administrative Cost Limits (G)
Statement of Condition	The accounting system maintained by the program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the ten (10%) administrative costs limit.
Criteria	45 CFR Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures 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 restriction and prohibitions of applicable statutes.
Cause of Condition	The program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures.
Effect of Condition	Such condition may cause program's non-compliance with certain compliance requirements like: allowable costs, activities allowed and unhallowed; and earmarking.
Recommendation	We recommend management to modify the accounting system chart of accounts to create separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response and Corrective Action	Actually, the Program Director is obtaining quotations to acquire a Peach Tree Software applicable to non-for-profit entities. With the implementation of such software the Program will count with a necessary tool to maintain separate account for administrative and programmatic expenditures and to achieve the appropriate allocation of dual costs (administrative and programmatic).

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YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-15**

Management Response
and Corrective Action (Continued)

Still in Process

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. María M. Rivera Program Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-16**

Program **HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services**

Requirement **Matching, Level of Effort, Earmarking (G)**

Statement of Condition During our special test (WICY Expenditures), we found that the program did not comply with the ratio of the population that involved (women, youth, infants and children). The program staff used the wrong CARE Act Data Report (CADR) age breakouts to determinate the WICY Expenditures. Also, in the “WICY Expenditure Narrative”, the management used the incorrect CDC% for the women population.

FY 08 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (before audit)

Population	Part A%	CDC%	Differences
Women	20.56%	34.12%	(5.50)
Children	0.26%	0.68%	(0.42)
Youth	0.74%	3.70%	(1.92)

FY 08 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (after audit)

Population	Part A%	CDC%	Differences
Women	24.23%	29.73%	(5.50)
Children	0.11%	0.68%	(0.57)
Youth	1.78%	3.70%	(1.92)

Also, our test of cost per patient served revealed differences between expenditures reported in the WICY expenditures worksheet and accounting records. As a result, the percentage reported was not correct.

Criteria Public Law 109-415, Section 2604(0), 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 ratio 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-16 (Continued)**

Cause of Condition The program did not follow up service providers to send reports of population served including related costs. Data provided by client was prepared using clinical reports which resulted in inaccurate and unreliable when we performed calculation tests.

Effect of Condition 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 Costs None

Management Response
and Corrective Action The differences mentioned in this finding occurred due to the wrong use of data in the CareWare Program.

The Program Accountant will examine the CareWare programming to assure the correct use of data according to the Care Act Data Report and other applicable sources.

Partially Corrected

Implementation Date: During Fiscal Year 2009-2010

Responsible Person: Mrs. Maria M. Rivera, Program Director Alexander Alvarado, Program Accountant

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-17
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Sub-Recipient Monitoring (M) (MW)
Statement of Condition	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring to service provider's financial and accounting records.
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 sub grant supported activities. Grantees must monitor grant and sub grant 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 of Condition	Lack of adequate personnel trained in the fiscal monitoring process.
Effect of Condition	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 program should establish adequate procedures to perform fiscal and programmatic sub-recipient monitories, including the adequate training of personnel assigned to monitoring functions.
Questioned Costs	None
Management Response and Corrective Action	<p>The Program Monitor prepared a Monitoring Plan for the programmatic subrecipients activities corresponding to the year 2010-2011. The Program Monitor took a trainig with other municipal Monitor about the monitoring procedures, the preparation of Monitoring Programs and worksheets and other related subjects.</p> <p>Partially Corrected</p> <p>Implementation Date: During Program Year 2010-2011</p> <p>Responsible Person: Mrs. Maria M. Rivera, Program Director Yessica Rodriguez Program Monitor</p>

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YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-18
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Period of Availability of Federal Funds (H) (MW)
Statement of 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 of Condition	The Program did not maintain internal control over the details of accounts payable that prevail at the end of the fiscal year.
Effect of Condition	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 Program 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 Costs	None
Management Response and Corrective Action	With the acquisition of the Peachtree Software mentioned in finding number 4, the Program will count with a useful tool to prepare the required detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period. Adequate coordination will be established with the Municipal Information System Department in order to obtain information about

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YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-18**

Management Response
and Corrective Action (Continued)

the unpaid vouchers corresponding to the Program providers and to maintain an updated and detailed list of outstanding obligations.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. María M. Rivera, Program Director Alexander Alvarado, Program Accountant

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YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-19
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Procurement and Suspension and Debarment (I)
Statement of Condition	<p>During our procurement contract provisions test of four (4) professional contracts, we found the following exceptions:</p> <ul style="list-style-type: none">a. One (1) contract did not include provision for retention of all required records for three years.b. Four (4) contracts did not include provision for compliance with the Bird-Anti-Lobbying Certification.
Criteria	<p>45 CFR Subpart C. Section 92.37 (b)(2), Ensure that every sub grant includes any clauses required by Federal statute and executive orders and their implementing regulations.</p> <p>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.</p>
Cause of Condition	No properly revision of contract clauses for updates or made changes in contract clauses, if applicable.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-19 (Continued)**

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

Questioned Costs None

**Management Response
and Corrective Action** The Program Director is taking appropriate corrective action measurements to ensure that all contracts include the provisions required by Federal and State regulations, including those mentioned in this finding.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. María M. Rivera, Program Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-20
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Reporting - Financial Administration (L) (MW)
Statement of Condition	<p>During our audit, we noted that the Program did not maintain an adequate set of accounting records that present the financial position of the program and results of its operations.</p> <p>In our Reporting Test, we found differences between the amounts reported as federal expenditures and the Final Annual Progress Report and Financial Status Report. As result, the financial reports do not agree with the program accounting records.</p>
Criteria	OMB Common Rules, Subpart C, Section 92.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	No adequate internal controls exist to assure the timely submission of closing reports to agencies as required by grant agreements and no satisfactory accounting records. Also, the Municipality has not established adequate internal control procedures to assure the correctness of the reports.
Effect of Condition	The program did not comply with the grant agreement which require the timely submission of reports to the Administration for Children and Families. Also, the Municipality did not comply with 24 CFR Section 92.20 (b) (1).
Recommendation	We recommend that the Municipality establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The program accountant must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to cash receipt and disbursements in a daily manner, in order to be posted in the cash register maintained by the Program. The Program accountant assures that accounting records are updated at the end of each month in order to prepare accurate monthly reports to the pass-through agency. In addition, the accountant must assure that the cash register and the

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 09-20 (Continued)

general ledger are duly reconciled and journal entries posted in the general ledger are duly documented and explained. We consider that the Program Director must evaluate the implementation of a computer accounting software to maintain the program books. Due to the large volume of transactions manual books are considered inefficient.

Questioned Costs None

Management Response
and Corrective Action

With the acquisition of the Peachtree Software mentioned in finding number 4, the Program will establish an adequate set of accounting records that present the financial position of the program and results of its operations, and will avoid the mentioned differences.

Also, the Program will establish adequate communication channels with the Finance Department and the Municipal Information System Department, in order to obtain fairly documental evidence and information to assure that accounting records are always updated.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mrs. María M. Rivera, Program Director
Alexander Alvarado Program Accountant

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-21
Program	Workforce Investment Act (CFDA. No. 17.258-260); U.S. Department of Labor; Pass-through the Human Resources Occupational & Development Council (HRODC)
Requirement	Allowable Cost – Cost Principles (B)
Statement of Condition	<p>During our disbursement test, we verified forty (40) disbursement vouchers related to program expenditures during the fiscal year 2008-2009. The following summarizes the situations found:</p> <ul style="list-style-type: none">a) Three (3) invoices, related to “On the Job Training” (OJT) agreements, were not mathematically accurate, resulting payments in excess of the correct amount. For two (2) of these invoices the excess were adjusted in a subsequent payment. At the time of our audit one (1) invoice was pending to correction.b) Eight (8) invoices paid in two (2) disbursement vouchers did not agree with supporting documents.
Criteria	<p>Code of Federal Regulations 97, Subpart C, Section 97.20 (a) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.</p>
Cause of Condition	<p>The Program did not maintain adequate controls to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs.</p>
Effect of Condition	<p>The Program staff did not follow the internal controls procedures to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs. After three points of verification the disbursements vouchers were approved with invoices mathematically incorrect and supporting documents that do not agreed with the amount claimed.</p>
Recommendation	<p>We recommend to the Municipality to strength its procedures to assure that all disbursements vouchers contain accurate and mathematically correct supporting documents.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-21 (Continued)**

Questioned Costs None

Management Response
and Corrective Action

The Program Director oriented to the personnel who verify and certify the correction of the invoices, about the necessity to verify the mathematical correction of the invoices and its supporting documents.

Actually, the Finance and Budget Department is reviewing the Pre-audit procedure, including the forms used in the process, in order to strengthen such procedures and establish a supervision mechanism to detect and correct possible deficiencies on a timely basis.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mr. Roberto Ramos, Program Director, Mrs. Ramona Pacheco, Finance Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-22
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Financial Reporting – Accounting Records (L) (MW)
Statement of Condition	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the program.</p>
Criteria	<p>24 CFR Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees 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 sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>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.</p>
Cause of Condition	<p>The Program 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.</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-22 (Continued)**

Effect of Condition The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In additions, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.

Recommendation We recommend that management should strengthen it's procedures an action to reconcile in a timely manner the federal funds reports with the accounting records in order to procedure reliable financial data.

The Municipality's management gave instructions to the program accountant to modify the accounting records in order to comply with the Program financial management and accounting requirements.

Questioned Costs None

**Management Response
and Corrective Action**

The Program Management have been implementing an accounting program (Micro-information Product Non For Profit System- MIP), which contains adequate procedures for the timely conciliation of federal fund report with accounting records and to produce reliable financial data.

The volume of information and transactions required to initiate the use of the accounting system had delay its implementation. But, the Program accountant and his personnel continue working hard to achieve such implementation. The Program Director will hire one additional Data Entry employee to accelerate the implementation process.

Still in Process

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant
and Mrs. Edna Ortiz, Program Director

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-23
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Reporting (L) (MW)
Statement of Condition	We performed a Reporting Test and did not find evidence that GAAP-based audited financial data was submitted electronically to HUD for the fiscal year 2007-2008.
Criteria	OMB No. 2535-0107, 24 CFR section 5.801, requires PHA to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Real Estate Assessment Center (REAC).
Cause of Condition	The Municipality did not maintain evidence of the Real Estate Assessment Center (REAC) audited information submission for the fiscal year 2007-2008.
Effect of Condition	The PHA did not comply with the OMB No. 2535-0107, 24 CFR section 5.801.
Recommendation	We recommend to the Municipality's management to instruct the program accountant to submit timely GAAP-based unaudited and audited financial information electronically to HUD.
Questioned Costs	None
Management Response and Corrective Action	<p>The Program Accountant in coordination with the predecessor auditor will prepare and submit electronically to HUD the required unaudited and audited financial information, during April 2010.</p> <p>Corrective action measurements will be taken to avoid that this situation be repeated.</p> <p>Still in Process</p> <p>Implementation Date: During Fiscal Year 2010-2011</p> <p>Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant</p>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-24
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Cash Management (C)
Statement of Condition	During our audit of the program's bank reconciliations, we noted that the cash balance shown a higher average monthly cash balance by approximately \$27,000 in the following months; August 2008, November 2008, December 2008 and March 2009.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality's disbursements procedures failed to assure that funds requested and received from the pass-through grantor be disbursed in compliance with the Code of Federal Regulations Requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec. 570.489 (c).
Recommendation	We recommend management to strengthen it's disbursement procedures to minimize the time elapsed between the transfer of funds from the pass-through grantor and the disbursements made by the Municipality.
Questioned Costs	None
Management Response and Corrective Action	As part of our corrective action plan, we will instruct Program accounting staff, in order to strengthen control and procedures to assure that the conditions observed by the auditors does not occur again. Still in Process Implementation Date: During Fiscal Year 2010-2011 Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-25
Program	Home Investment Partnership Program (CFDA NO. 14.239); U.S. Department of Housing and Urban Development
Requirement	Reporting (L)
Statement of Condition	<p>In our Reporting Test, we noted following:</p> <p>There is a difference of \$786,614 between the IDIS Report (CO4PR27) and the programs' accounting records. As of June 30, 2009, the amount disbursed per IDIS was \$9,420, 829 versus \$10,207,443 per accounting records. The differences arise from grants from the 2000 through 2008 program years.</p>
Criteria	<p>45 CFR Subpart C, Section 85.20 (b) (1) establishes that financial reporting provides 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 sub grant.</p> <p>24 CFR Subpart C, Section 85.20 (b) <i>Accounting Records</i> of Grantees and sub grantees 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 sub-grant awards and authorizations, obligations, un-obligated balances, assts, liabilities, outlays or expenditures, and income.</p>
Cause of Condition	<p>The Program did not establish adequate procedures for the reconciliation of HUD funds presented in IDIS with the resources accounted on Municipality.</p>
Effect of Condition	<p>Municipality's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.</p>
Recommendation	<p>The Municipality did not comply with 24 CFR Sub Part C, Sections 85.20 (b) (1) and (2).</p>
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-25**

Management Response

And Corrective Action

The director and its personnel will be taking appropriate actions to reconcile the Integrated Disbursement and Information (IDIS) in order to produce reliable financial data and to comply with the Federal requirements.

Still in Process

Implementation Date: During Fiscal Year 2010-2011

Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant
and Mrs. Edna Ortiz, Program Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

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, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-01 (FS)	OPERATING DEFICIT OF GENERAL FUND	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.	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.		Not resolved yet. See current year finding number 2009-01
2008-02 (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 information. As a consequence, the finance and budget department personnel should use	The Municipality of Ponce acquired license for the installation of SAP-ERP system, to achieve adequate and fairly financial information in the accounting system,		Not resolved yet. See current year finding number 2009-02

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

Date

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AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

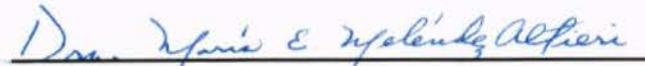
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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.	regarding capital assets and long term debts. The municipality is evaluating the cost-benefit of acquiring a new computerized system or an upgrade of the actual system		
2008-03 (FS)	MUNICIPAL LICENSE TAX REVENUES (MW)	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 Suspense"), 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	In May 28, 2008, the employee in charge of the files control was instructed by the Finance and Budget Director to prevent this finding. By the other hand, on November 2008, the personnel who work with the review of the tax returns, received a training about their functions.		Not resolved yet. See current year finding number 2009-03

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

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Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		obligations of the fiscal year 2007-2008 and was not authorized by a municipal ordinance or resolution.	The Finance and Budget Director will implement additional internal control over the custody of taxpayers' files.		
2008-04 (FS)	HEAD START PROGRAM	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.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2008-01 (FA) - Allowable Costs/	HEAD START (CFDA No. 93.600)	We have performed audit procedures to forty (40) vouchers and six (6) payroll		\$50.00	Full corrective action has been

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Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Cost Principles (B) (MW)		<p>disbursements and noted the following exceptions:</p> <ol style="list-style-type: none"> 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 payments 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 			<p>taken. This finding was not repeated in fiscal year 2008-2009.</p>

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 - June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>employee less than the amount indicated. The employees worked all labored hours and the program reduces 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.</p> <p>4. In nine (9) vouchers the concept of payment indicating in the disbursement is incorrect.</p>			
2008-02 (FA) Cash Management (C) (MW)	HEAD START (CFDA No. 93.600)	<p>In our drawdown test over forty two (42) disbursements, we noted the following exceptions:</p> <p>1. Two 92) checks do not appear in</p>	The Municipality of Ponce acquired licenses for the installation of SAP-ERP system, to achieve adequate and fairly financial		Full corrective action has been taken. This finding was not repeated in

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>corrected in the next request.</p> <ul style="list-style-type: none"> - 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. - 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 			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

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Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		in the following months: – May 2008 – June 2008			
2008-03 (FA) Davis Bacon Act (D) (MW)	HEAD START (CFDA No. 93.600)	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.	The Program will take adequate measurements to assure that future construction contracts, payroll certifications, and disbursement vouchers includes the signatures, clause and documents mentioned in this finding.	Not Determinable	According OMB Circular A-133 Compliance Supplement updated March 2009, this is a compliance requirement for Head Start Program, but is applicable to construction or major renovations. During the current year the renovations

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					were minor.
2008-04 (FA) Participants' Eligibility (E) (MW)	HEAD START (CFDA No. 93.600)	<p>We have performed eligibility test to forty (40) participants' files and noted the following exceptions: I. In five (5) files examined the family composition that indicates the social history was wrong.</p> <ol style="list-style-type: none"> 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. 	A checklist will be implemented 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.	Not Determinable	Partially resolved, but some items of this finding were repeated in fiscal year 2008-2009. See current year finding number 2009-06

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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. 10. Six (6) files examined did not			

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

March 30, 2010

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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

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Fiscal Year: 2008-2009

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>include evidence of family Social Security Income.</p> <p>11. Four (4) files examined did not include evidence of the Family Income Certification.</p> <p>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.</p> <p>13. Eighteen (18) files examined did not include evidence of Supplemental Nutrition Program for Women, Infant and Children (W.I.C.).</p> <p>14. Eight (8) files examined did not include evidence of utilities invoice showing residential address.</p> <p>15. Nine (9) files examined have the family</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 30, 2010
Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>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, although was considered of special need, it is not included in the list of children with special needs.</p> <p>20. One (1) file examined did not include evidence of Physical Examination that applies to the fiscal year audited.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

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Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>21. In one (1) file examined the physical examination was performed 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) tile examined the dental examination was performed late, more than ninety days after the first day of classes.</p> <p>24. In five (5) files examined the physical examination and dental examination did not have evidence of the name (signature) of the examiner.</p> <p>25. Two (2) files examined had evidence of only one Curriculum Creative Progress Report.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 30, 2010

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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>26. Two (2) files examined had evidence of only two Curriculum Creative Progress Report.</p> <p>27. In one (1) file examined the curriculum creative progress report no has evidence of the signature of the teacher.</p> <p>28. In one (1) file examined the curriculum creative progress report no has evidence of the family signature.</p> <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>			
2008-05 (FA) Equipment and Real Management	HEAD START (CFDA No. 93.600)	We performed audit procedures to four (4) addition equipment disbursements (over \$5,000) during the fiscal year audited, and	The equipment mentioned in the item one (1) already was recorded in the		Partially resolved, but some items of

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Hon. María E. Meléndez Altieri, Mayor

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**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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(F) (MW)		<p>examined the property subsidiary ledger and the internal control of property, plan, and equipment and noted the following:</p> <p>One (1) equipment examined was not recorded in the subsidiary property ledger. One (1) disbursement did not have evidence of when the Program receipts the merchandise.</p> <p>Three (3) equipments examined, the subsidiary property ledger did not indicate the serial number.</p> <p>One (1) equipment examined. the subsidiary property ledger does not indicate the condition and use of equipment.</p> <p>Three (3) equipments examined physically did not have evidence of the tag number.</p> <p>We performed audit procedures to twenty (20) equipments or material (less than \$5,000) of the centers and we noted the following:</p> <p>Two (2) equipments examined physically did</p>	<p>subsidiary property ledger with the 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 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</p>		<p>this finding were repeated in fiscal year 2008-2009. See current year finding number 2009-07</p>

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		not appear registered in the subsidiary property ledger.	<p>federal requirements established for property management. (Item 3 and 4)</p> <p>The equipment mentioned in the item 5, was identified with the required tag number after the audit period.</p> <p>The two (2) equipments mentioned in the second part of this finding, which cost was less than \$5,000, will be registered in the subsidiary property ledger by the person in charge of such subsidiary.</p>		
2008-06 (FA) Matching (G) (MW)	HEAD START (CFDA No. 93.600)	1. We chose two months to evaluate the supporting documents for cash or in-			Full corrective action has been

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>kind local contributions and noted the following:</p> <p>a. In all samples observed differences between the documents to support the volunteer work and the amount recorded in the general ledger.</p> <p>b. In all samples 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 supporting documents was not joined properly during the fiscal year audited.</p>			<p>taken. This finding was not repeated in fiscal year 2008-2009.</p>

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Hon. María E. Meléndez Altieri, Mayor

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**COMMONWEALTH OF PUERTO RICO
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		<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. 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 recover the total Federal share.</p>			

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-07 (FA) Earmarking (G) (MW)	HEAD START (CFDA No. 93.600)	<p>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.</p> <p>In nineteen (19) centers examined, the monthly average daily attendance rate was below 85%. This situation has the effect of</p>	<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 complies with an enrollment above the 97% of the client population approved to serve.</p>		<p>Not examined. According OMB Circular A-133 Compliance Supplement updated March 2009, this is not a compliance requirement for Head Start Program.</p>

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		decreasing the Head Start funds for meal payments.			
2008-08 (FA) Period of Availability of Federal Funds (H) (MW)	HEAD START (CFDA No. 93.600)	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.	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.		Not resolved yet. See current year finding number 2009-09
2008-09 (FA) Procurement and Suspension and Debarment (I) (MW)	HEAD START (CFDA No. 93.600)	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.	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 and state laws		Partially resolved, but some items of this finding were repeated in fiscal year 2008-2009.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<ul style="list-style-type: none"> 2. Three (3) contracts without evidence of Department of Treasury Debt Certification. 3. Two (2) contracts without evidence of Certification of Movable and Immovable Property (CRIM). 4. Two (2) contracts without evidence of Municipal Tax License. 5. Two (2) contracts 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. 	require.		See current year finding number 2009-10

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		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			

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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 sub grantees make final payments and all other pending matters are closed.			
2008-10 (FA) Reporting (L) (MW)	HEAD START (CFDA No. 93.600)	During the evaluation of the Financial Status Report (FSR-269) funding grant	From now on, accounting employees will prepare		Not resolved yet. See

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>period ended December 31 2007 and submitted in June 3, 2008, we noted the following: 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>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 cannot evidence whether the difference of \$130,416.68 were</p>	<p>reports of obligated expenditures, based in the balance 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>current year finding number 2009-12</p>

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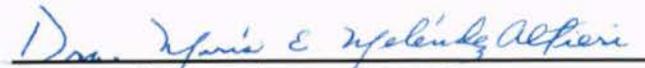
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		obligations made on or before December 31, 2007 and belong to an expense of the budget year 2007.			
2008-11 (FA) Accounting records (L) (MW)	HEAD START (CFDA No. 93.600)	During our test over the accounting management system, we detected the following exceptions: 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	The 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/in kind by each part. The Program has determined to pay the federal funds restricted to the applicable Municipal costs or payments.		Not resolved yet. See current year finding number 2009-13

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		applicable Federal program.			
2008-12 (FA) - Accounting Management System (L) (MW)	HEAD START (CFDA No. 93.600)	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 no 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.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2008-13 (FA) -	HEAD START (CFDA No.	During our test over four centers, we noted			According OMB

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Center Licenses, Physical Environmental, Equipment, Material and Facilities (N) (MW)	93.600)	<p>the following exceptions:</p> <p>Two (2) centers had expired the Firefighter Certificate.</p> <p>Early Home Base Center - Class Room HI: 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.</p> <p>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</p>			Circular A-133 Compliance Supplement updated March 2009, this is not a compliance requirement for Head Start Program.

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		<p>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.</p> <p>Magueyes I and H - 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</p>			

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		<p>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 1" the ceiling fan and the closet is dirty and a ceiling lamp is not working.</p> <p>Coto Laurel - The bathrooms did not have handicapped railings. The center did not have disabled ramp at the door accessing the playground. Emergency lights are 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</p>			

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		equipment have areas without protection.			
2008-14 (FA) - Cash Management (C) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	<p>During our cash management test we noted the following exceptions: 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>During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance by approximately \$25,000.</p>	The Program has established the corrective actions to prevent this situation in the near future.		Not resolved yet. See current year finding number 2009-14
2008-15 (FA) - Eligibility (E) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	<p>In our test of seven (7) Eligibility agencies, we noted the following exceptions:</p> <ol style="list-style-type: none"> 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 		None	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>respective findings.</p> <p>2. One service provider did not submit the professional certifications of personnel who provided direct services to patients.</p> <p>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.</p>			
2008-16 (FA) - Matching, Level of Effort, Earmarking (G) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	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.	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	None	Not resolved yet. See current year finding number 2009-16

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 30, 2010

Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

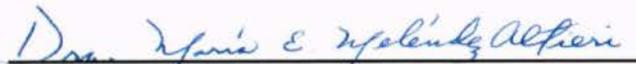
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			the WICY report.		
2008-17 (FA) - Period of Availability of Federal Funds (H) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	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.	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).	None	Not resolved yet. See current year finding number 2009-18
2008-18 (FA) - Procurement and Suspension and Debarment (I)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	In seven (7) contracts tested, we found the following exceptions: Six (6) contract examined did not include the Bird-Anti Lobbying Certification. No evidence observed 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		None	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009. Note: The procurement procedures area included

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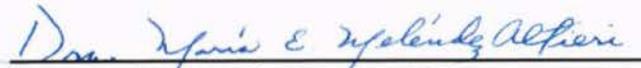
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		end of award period.			the finding 2009-19, but the situation mentioned is such finding is different to those mentioned in this finding.
2008-19 (FA) - Reporting (L)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	The Women, Infants, Children, and Youth (WYCY) 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.		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008 and 2008-2009. Note: The reporting area included the

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					finding 2009-20, but the situation mentioned is such finding is different to those mentioned in current year finding
2008-20 (FA) - Sub-Recipient Monitoring (M) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	The program did not perform fiscal monitoring to the service provider financial and accounting record.	The Fiscal Monitor started the fiscal monitoring of the agencies, which will be an ongoing process.		Not resolved yet. See current year finding number 2009-17
2008-21 (FA) - Cash Management (C) (MW)	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT	In our drawdown test over eighteen (18) cash funds requested, we noted the following exceptions:			Full corrective action has been taken. This

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
	(CFDA No. 14.218)	<ol style="list-style-type: none"> 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 program's 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 			finding was not repeated in fiscal year 2008-2009.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<ul style="list-style-type: none"> - February 2008 - March 2008 - April 2008 - May 2008 			
2008-22 (FA) Equipment and Real Property Management (F)	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)	<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>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>			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2008-23 (FA) -	COMMUNITY	In seven (7) contracts procurement process			Full corrective

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Procurement and Suspension and Debarment (I) (MW)	DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)	we tested the compliance and internal control and found the following exceptions: One (1) contract without evidence of Certificate of Incorporation. Two (2) contracts without evidence of Corporate Resolution. One (1) contract without evidence of the Policy of the State Insurance Funds. One (1) contract without evidence of Certification of Good Standing. One (1) contract without evidence of verified in the Excluded Parties List. 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. 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			action has been taken. This finding was not repeated in fiscal year 2008-2009.

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Hon. María E. Meléndez Altieri
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		regulations. One (1) contract without clause of Notice of awarding agency requirements and regulations pertaining to reporting. 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.			
2008-24 (FA) Sub recipient monitoring (M) MW)	COMMUNITY DEVELOPMENT BLOCK GRANT/ ENTITLEMENT (M) (MW)	We evaluated nine (9) monitoring issued during the fiscal year 2007-2008 and noted the following: 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. In one (1) monitoring, we noted that The Municipality did not request the audit of financial statement and compliance under OMB Circular A-133.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.

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Hon. María E. Meléndez Altieri
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**COMMONWEALTH OF PUERTO RICO
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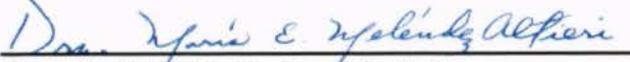
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-25 (FA) Allowable Costs/ Cost Principles (B) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	We examined forty (40) disbursements and noted the following: One (1) purchase order did not have evidence of the signing of the budget director or authorized representation. One (1) purchase requisition was prepared after the purchase order. 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			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2008-26 (FA) Cash Management (C) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	In our drawdown test over forty (40) disbursements, we noted the following exceptions:			Full corrective action was taken

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<ol style="list-style-type: none"> 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: 			

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Hon. María E. Meléndez Altieri
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AUTONOMOUS MUNICIPALITY OF PONCE**

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<ul style="list-style-type: none"> - August 2007 - \$35,148 - September 2007- \$53,037 - January 2008 - \$13,251 - May 2008- \$11,082 <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>			
2008-27 (FA) Davis Bacon Act (D) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	<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>Contract without contract provision for</p>			Full corrective action has been taken. This finding was not repeated in

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>Payment of Prevailing Wages.</p> <p>One (1) payroll certification without evidence that was monitored and evaluated by the payment official examiner.</p> <p>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.</p> <p>The Municipality did not perform a monitoring process in the project as stated in the contract clause.</p> <p>All payroll certification do not include the contract number or project number.</p>			fiscal year 2008-2009.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-28 (FA) Eligibility (E) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	In our test over twenty-four (24) participants' files, we noted the following exceptions: Four (4) files examined did not include evidence of income (Certificate of employment or Copy of last two pay stubs). Four (4) files examined did not include evidence of ASUME Certification. Five (5) files examined did not include evidence of Department of Labor Certification. Seven (7) files examined did not have evidence for the verification of assets. Three (3) files examined did not include evidence of Department of Treasury Debt Certification. One (1) file examined did not include Certification of CRIM. In one (1) file examined, we noted that funds were awarded to a participant whose acquisition costs exceed the cost allowed.			Full corrective action has been taken.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>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.</p> <p>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.</p>			
2008-29 (FA) Equipment and Real Property Management (F) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	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:			Full corrective action has been taken.

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

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>One (1) equipment do not has the serial number in the property subsidiary ledger.</p> <p>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.</p> <p>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>We noted that the number of tag that is physically in the equipment not correspond for the HOME Program.</p>			

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2008-30 (FA) Procurement and Suspension and Debarment (I) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	In three (3) contracts procurement process and four (4) purchases order, we tested the compliance and internal control and found the following exceptions: One (1) contract agreement did not include the effective signature date. One (1) contract without evidence of the Policy of the State Insurance Funds. Three (3) contracts without evidence of Certification of Good Standing. One (1) contract without evidence of Certification of Law and Code Contractor and Anticorruption Procedures. Two (2) contracts without evidence of Verification of Employment and Human Resources Debt. One (1) contract without evidence of Payment and Performance Bond and Bid Bond. One (1) contract agreement without clause			Full corrective action has been taken.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		of Lead Based Paint. One (1) contract agreement without clause of Patent write and copyright. Four (4) purchases order supporting documents did not include evidence of competition process.			
2008-31 (FA) Accounting Records (L) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	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.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2008-32 (FA) Sub-recipient Monitoring (M)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	We evaluated the only two (2) monitoring issued during the fiscal year 2007-08, and noted the following:			Full corrective action has been taken. This

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		In one (1) monitoring, we noted that the audit documents are incomplete and does not include some findings presented by monitoring report.			finding was not repeated in fiscal year 2008-2009
2008-33 (FA) Setting Up & Draw Down (N)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	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.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2008-34 (FA) Disbursement Voucher Process (B) (I) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We evaluated twenty-three (23) administrative disbursements and noted the following: One (1) voucher of payment did not have evidence of the signing of the account payable official. Two (2) purchases order supporting documents did not include evidence of			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.

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Date

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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

Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

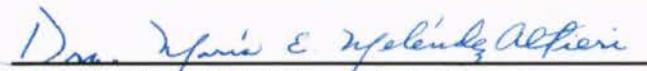
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Competition process. Three (3) contract agreements did not include the effective signature date.			
2008-35 (FA) Cash Management (C) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<ol style="list-style-type: none"> 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. 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 			Full corrective action has been taken.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 30, 2010

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**COMMONWEALTH OF PUERTO RICO
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		monitor over outstanding checks for more than six months.			
2008-36 (FA) Participant Eligibility (E) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed an eligibility test for forty (40) participants' files and noted the following exceptions: Six (6) files examined did not comply with the timing requirement to initiate the reexamination verification process. Four (4) files examined did not include evidence of income. Two (2) files examined did not include evidence of Family Department Certification (PAN). Two (2) files examined did not include evidence of Family Child Support (ASUME) Certification. One (1) file examined has the adjusted income of the family calculated incorrectly. One (1) file examined did not include evidence of US Citizenship Declaration			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.

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		<p>Form. Three (3) files examined did not have evidence of Social Security Verification. Eight (8) files examined did not have evidence of Authorization for Release of Information/Privacy Act Notice. In one (1) file examined the certification of child care cost that were considered in the Form 50058 are calculated incorrectly. One (1) file examined did not include evidence of the cost of child care expense. Twenty (20) files examined did not include evidence of Value of Assets Verification. Six (6) files examined did not include evidence of Good Behavior Certification for all family members of 18 years old and up. Six (6) files examined did not include evidence of Drug Free Certification. Three (3) files examined did not include HAP Contract or Amendment that applied to the fiscal year audited. One (1) file examined did not include</p>			

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		<p>evidence of the Lease of Voucher Tenancy. Ten (10) files examined did not include evidence of utilities invoice and the tenants have utilities allowance.</p> <p>Three (3) files examined have the utilities allowance calculated incorrectly in the contract amendment.</p> <p>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>Four (4) contracts or amendments did not indicate the utilities allowance however the Program is given subsidy to the tenant.</p> <p>In one (1) file examined the contract does not indicate the negative rent applied according to the Family Report 50058.</p> <p>Two (2) files examined did not include evidence of Marriage or Divorce</p>			

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		<p>Certification. Three (3) files examined did not include evidence of Sworn Statement that identified the Social Status, Income and Property. Three (3) files examined did not include evidence of family member's Birth Certification. Two (2) files examined did not include evidence of Certificate of Study Children. Six (6) files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up. Eight (8) files examined did not include evidence of Department of Treasury Debt Certification. Six (6) files examined did not include evidence of Certification of Movable and Immovable Property (CRIM). Eight (8) files examined did not include evidence of Certification of Income Tax Return for the last five years.</p>			

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		Six (6) files examined did not include evidence of Credit Information Authorization. Two (2) files examined did not include evidence of Family Photo.			
2008-37 (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 the accounting records, we noted the following: In the period covered from July 1, 2007 to September 30, 2007 the following items reported certain differences: The HAP Voucher Unit The "Portability-In" HAP Voucher Unit, for the month of July 2007 The "Portability In" HAP Voucher Expense The Administrative Expenses In the period covered from October 1, 2007 to December 31 2007 the following items reported certain differences:			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009. Note: The financial reporting area include the finding 2009-22, but the situation

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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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		The "Portability Out" HAP Voucher Unit, for the month of December 2007 The HAP Voucher Unit The "Portability Out" HAP Voucher Expense, for the month of December 2007 The "Fraud Recovery Amount Booked", for the month of November 2007 The "Portability In" HAP Voucher Expense, for the month of December 2007 In the period covered from April 1, 2008 to June 30, 2008 the following items reported certain differences: The HAP Voucher Unit The HAP Voucher Expense The HAP Voucher Expense after the first day of the month, for the month of May 2008 The "Portability-In" HAP Voucher Unit, for the month of May 2008 The "Portability-In" HAP Voucher Expense The Administrative Expense for the months of April 2008 and May 2008			mentioned in such finding is different to those mentioned in current year finding.

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2008-38 (FA) Special Reporting (L and E) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed compliance test to forty (40) participants' files, family report (HUD Form 50058) and we noted the following situations: Three (3) files examined have incorrect the item 5i "Date of Last Annual HQS inspection" in HUD's Form 50058. One (1) file examined have incorrect the item 5h "Date of Unit Last Passed HQS Inspection" in HUD's Form 50058. In six (6) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009
2008-39 (FA) Performance Reporting	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	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			Full corrective action has been taken. This finding was not repeated in fiscal year

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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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					2008-2009
2008-40 (FA) Reasonable Rent (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed compliance test to forty (40) participants' files and we noted the following situations: In one (1) file examined, the rental contract that applies to the new admission is over the Rent Reasonableness Certification. Three (3) files examined did not include evidence of the Rent Reasonableness Certification. According to the Fair Market Value for the fiscal year 2007-08 we noted in twenty one (21) files examined that the payment standard was not calculated accordance to the percentage established in the Administrative Plan approved by HUD.			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009
2008-41 (FA) Utilities Allowance	SECTION 8 HOUSING CHOICE VOUCHER (CFDA	We have performed utilities allowance test to forty (40) participants' files and we noted			Full corrective action has

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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)

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(N) (MW)	No. 14.871)	the following situations: 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. One (1) file examined has the utilities allowance calculated incorrectly in the HAP contract or amendment			been taken. This finding was not repeated in fiscal year 2008-2009
2008-42 (FA) Housing Quality Standards Inspections (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We performed test the Housing Quality Standard Inspection in forty seven (47) participants' files and we noted the following: 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. In two (2) files examined, the inspection			Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009

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		report have wrong the pass date. In two (2) files examined, the inspection report does not indicate the inspector conducting the inspection. In one (1) file examined, the inspection report does not indicate the date of the last inspection.			
2008-43 (FA) HQS 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 HUD-52580; we found the following situations in thirty three (33) participants' files examined: 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). 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.		\$21,981	Full corrective action has been taken.

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		<p>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.</p> <p>In one (1) file examined the inspection report indicates that the unit does not pass inspection, however does not specify which deficiencies were found.</p> <p>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.</p> <p>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>Eighteen (18) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (24</p>			

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		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 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			
2008-44 (FA) Housing Assistance Payment (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	In a sample of forty (40) payments under rental contract. we noted the following: In thirteen (13) payments examined, the HAP contract did not agree with the amount		\$9,799	Full corrective action has been taken. This finding

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		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. 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.			was not repeated in fiscal year 2008-2009
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	The Municipality of Ponce continues with the measurements to control the	None	Not resolved yet. See current year

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		reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund) as required by law	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.		finding number 2009-01
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 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	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. The present Municipality	None	Not resolved yet. See current year finding 2009-02

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		mis calculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software.	administration is evaluating the acquisition of a new accounting computerized system or an upgrade of the actual system. 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.		
2007-03 (FS)	Municipal License tax	We have performed audit procedures to	On May 28, 2008, the	None	Full corrective

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	revenues	forty-one (41) municipal license tax returns and noted that one (1) taxpayer files were not available for test.	employee in charge of the files control was instructed by the Finance and Budget Director to prevent this finding. By the other hand, in November 2008, the personnel who work with the review of the tax returns, received a training about their functions. The Finance and Budget Director will implement additional internal control over the custody of taxpayers' files. This situation was not repeated on the Single Audit Report for the fiscal year 2007-2008.		action has been taken. This finding was not repeated in fiscal years 2007-2008 and 2008-2009
2007-04 (FS)	Construction Licenses	We have performed audit procedures to	The Director of the Permits	None	Full corrective

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	Permits/Excise Taxes (MW)	<p>thirteen (13) construction excise taxes files and noted the following exceptions: 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 cannot recompute the applicable construction excise taxes calculated by The Municipality. Two (2) auxiliary receipts were not possible traced to official receipt, daily cash collections, deposit slip, and bank statement.</p>	<p>Office will require to the person in charge of the File Unit, that strengthen the internal control to assure that tax payer 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</p>		<p>action has been taken. This finding was not repeated in fiscal years 2007-2008 and 2008-2009</p>

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Hon. María E. Meléndez Altieri
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			the Daily Revenues Reports and that assure that all reports contain the corresponding deposit slips, collection receipts and daily collector reports.		
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> <p>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.</p> <p>In one (1) contract examined, the clause of no convict of crimes against the government was not included.</p>		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008- and 2008-2009

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		In one (1) contract examined, the clause of no receiving salary payments from other governmental agency was not included.			
2007-01 (FA) Earmarking (H) (MW)	HEAD START (CFDA No.93.600)	<p>Pursuant to the final Assistance Award or 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</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 complies with an enrollment above the 97% of the client population approved to serve.	\$96,524	According OMB Circular A-133 Compliance Supplement updated March 2009, this is not a compliance requirement for Head Start Program.

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		budget period			
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	Full corrective action has been taken. This finding was not repeated in fiscal year 2007-2008 and 2008-2009.
2007-03 (FA) Accounting Management	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	The Program Administration will initiate the process to acquire an accounting	None	Full corrective action has been taken. This

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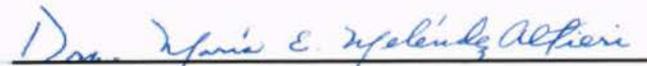
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System (L) (MW)		Accounting records maintained by the Program compared to those records maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; 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.	system program.		finding was not repeated in fiscal year 2007-2008 and 2008-2009.
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 has established the corrective actions to prevent this situation.	None	Not resolved yet. See current year finding number 2009-14

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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	Not resolved yet. See current year finding number 2009-16
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	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009. Note: The procurement procedures

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					area included the finding 2009-19, but the situation mentioned is such finding is different to those mentioned in current year finding
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. Financial Status Report: Submitted on October 15, 2007, three months after the extension period granted. It does not reconcile with the accounting records for \$113,308.		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008 and 2008-2009. Note: The reporting area

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		2. Annual Progress Report: Submitted August 1, 2007 thirty three 33 days after the due date.			included the finding 2009-20, but the situation mentioned is such finding is different to those mentioned in current year finding
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 undergoing fiscal monitoring visit to the agencies. At least one fiscal	None	Not resolved yet. See current year finding number 2009-17

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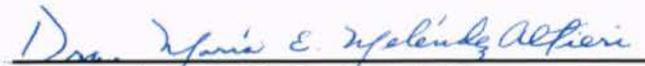
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			monitoring will be conducted at every agency.		
2007-09 (FA) Contract Procurement process (I) (MW)	COMMUNITY DEVELOPMENT BLOCK GRANT (CFDA No. 14.218)	In eight (8) contracts tested, we found the following exceptions: 1. One contract without Byrd-Anti Lobbying Certification (apply to all contract over \$100,000). 2. Eight contracts without evidence of Certification of Suspension and Debarment. 3. Eight contracts without evidence of verified in the Excluded Parties List (EPL).	The Municipality 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009.
2007-10 (FA) Cash -	HOME INVESTMENT PARTNERSHIP	During our cash management test, we selected fourteen (14) checks for test and	Instruction will be given to the person in charge of	None	Full corrective action has been

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management (C) (MW)	PROGRAM (CFDA No 14.239)	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	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 employee 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.		taken. This finding was not repeated in fiscal year 2008-2009.
2007-11 (FA) -	HOME INVESTMENT	We evaluated the only contract of	Adequate measurements will	None	Full corrective

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			payments includes certification included in as supporting documents of the payments includes the required signatures.		
2007-12 (FA) - Accounting Record (L) (MW) Period of Availability of Funds (H)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	We evaluate the list of contracts that were issued for the fiscal year 2006-07 and belonged to the obligations required by HUD according to the commitment 2005 and noted the following: (a) the commitment transactions recorded in IDIS report (C-04PR27) at July 31, 2007 have difference between the encumbrances reported in the program's accounting records The program's accounting records present more obligations. In twenty (20) contracts examined, we found the following exceptions: Two (2) contracts were not obligated in IDIS	Verbal and written instructions were provided to personnel responsible for this area. A system report was designed to track all HOME funds committed during the period of availability of the applicable program year, allowing the auditor to verify these funds. Currently, all commitments are entered in IDIS System right after they are entered of Post into the program's accounting system, using the same data.	None	Full corrective action has been taken. This finding was no repeat in fiscal year 2008-2009.

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		<p>report system by the actual amounts. The Municipality obligates the contract for an amount greater than the actual.</p> <p>One (1) contract was obligated by the same amount of \$40,000.00 twice in the accounting system of the program.</p>	<p>Since the program did not have sufficient historical data for Homeownership Assistance, contract were obligated to the maximum stipulated in the contract which stated that the assistance was "Up to \$40,000", however, the preliminary amount assigned to the family was posted on the program's accounting system to track possible economies and to assist additional families system to track possible economies and to assist additional families</p>		

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2007-13 (FA) - Sub-recipient Monitoring (M) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	We evaluated the only monitoring issued during the fiscal year 2006-07, and noted the following: Monitoring Letter: 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. Preparing the Evaluation: The audit did not have a budget approved for the period been audited that indicates the kind of test which are required accordingly to the verify compliance. Follow Up on Findings & Consulting: At May 10, 2008, the monitoring officer has not reviewed and evaluated the corrective action plan issued by the sub-recipients.		None	Full corrective action has been taken. This finding was no repeat in fiscal year 2008-2009.

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2007-14 (FA) - Drawdown of Fund Home (N) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	<p>We evaluated the fourteen (14) drawdowns and noted the following:</p> <p>A drawdown number 1307258 did not have the signature of the officer who prepared the request.</p> <p>In the drawdown number 1425064, we noted that the drawdown was approved and authorized by the same officer.</p>	<p>Oral and written procedures were established for the drawdown approval process, indicating the personnel required to perform each task. Even though the separation of duties was preserved, since the 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.</p> <p>A local form, Request Voucher for Grant Payment IDIS, was developed and</p>	None	Full corrective action has been taken. This finding was no repeat in fiscal year 2008-2009.

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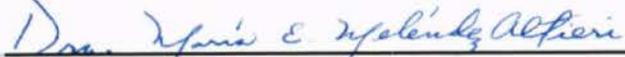
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			revised to require only personnel authorized in IDIS to process drawdown requests. Department's Director was left for the only purpose of acknowledging the transaction at the end of the process. The payment process, before IDIS is accessed, begins with the Department's Director written authorization.		
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) participant's files and noted the following exceptions: Two (2) files examined did not included evidence of income.	The Quality Control Unit was restructured to improve the established procedures to evaluate file content and report accuracy.	Not Determinable	Full corrective action has been taken. This finding was no repeat in fiscal year

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		<p>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.</p> <p>Nine (9) files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice.</p> <p>Three (3) files examined did not include Sworn Statement, which specified that the participant does not have Value of Assets.</p> <p>Ten (10) files examined did not include evidence of Drug Free Certification.</p> <p>Three (3) files examined did not include evidence of Family Department Certification (PAN).</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 Anual" that is going to be used by housing investigator to ensure the annual reexamination are performed according to regulations section 8.</p> <p>The internal control evaluation over contract will be strengthened to assure that contracts include all benefits to be granted to the participants.</p>		2008-2009.

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		<p>Three (3) files examined did not include evidence of ASUME Certification.</p> <p>Two (2) files examined did not include HAP Contract that applied to fiscal year 2006 or contract extension applied until June 30, 2007.</p> <p>Six (6) HAP Contracts with be issued and signed after the annual reexamination date.</p> <p>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>Three (3) files examined did not include evidence of Lease for Voucher Tenancy.</p>			

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		<p>Six (6) files examined have the Lease for Voucher Tenancy (issued and signed) after the annual reexamination applied to fiscal year 2006.</p> <p>One (1) Residential lease and Tenancy Addendum without "Owner" signature.</p> <p>Three (3) files examined did not include evidence of family member's Birth Certificates.</p> <p>One (1) file examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.</p> <p>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</p>			

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Hon. María E. Meléndez Altieri, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>participant filled the income tax return for the last five years.</p> <p>Three (3) files examined did not include evidence of family member's Birth Certificates.</p> <p>Four (4) files examined did not comply with the timing requirement to initiate the reexamination verification procedures.</p>			
2007-16 (FA) - Financial Reporting (L) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" versus accounting records, we noted the following:</p> <p>In the period covered from July 1, 2006 to September 30, 2006 the following items reported certain differences: The Voucher Unit The HAP Voucher Expenses</p>	<p>A Supervisor will print monthly reports from the software system to verify if any data missing or others discrepancies.</p> <p>A supervisor will verify the data in the software system; compare the payments in the</p>	None	Full corrective action has been taken. This finding was no repeated in fiscal year 2008-2009. Note: The financial

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		<p>The "Portability Out" HAP Voucher Expense The "Portability In" HAP Voucher Expense The Administrative Expense</p> <p>In the period covered from October 1, 2006 to December 31, 2006 the following items reported certain differences: The Voucher Unit The HAP Voucher Expenses The "Portability In" Voucher Unit The "Portability In" HAP Voucher Expense The Administrative Expenses</p> <p>In the period covered from January 1, 2007 to June 30, 2007 the following items reported certain differences: The Administrative Expenses</p>	system. (findings 1-3)		reporting area include the finding 2009-22, but the situation mentioned in such finding is different to those mentioned in current year finding.
2007-17 (FA) - Special Reporting (L and E) (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:	The Program Supervisor will monitor the family report Form HUD-50058 revising a	Not Determinable	Full corrective action has been taken. This

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		<p>Three (3) files examined without complete items 5h "Date of Last Annual HQC Inspection" and 5i "Unit Inspection Date" in HUD's Form 50058.</p> <p>One (1) file examined without complete item 5h "Date of Last Annual HQS Inspection" in HUD's Form 50058.</p> <p>In five (5) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</p>	monthly report that extracts information from the information system and matching with documentation in files.		finding was not repeat in fiscal year 2008-2009
2007-18 (FA) Performance Reporting (L)	SECTION 8 2007-18 (FA) 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. The Municipality indicated that met at least 98% of the units and according to the audit the indicator had to	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	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009

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		the percentage established in the Administrative Plan approved by HUD.	Payment Standard within 110%. The Program Superior has create a form will evaluate and monitor any increase of rent according with the process established.		
2007-20 (FA)- Utilities allowance (N)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed Housing Quality Standard Inspection test to forty (40) participants' files and we noted the following situations: In one (1) file examined the utilities allowance was calculated incorrectly because The Municipality 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009

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2007-21 (FA)-Housing quality standards inspections (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>We have performed Housing Quality Standard Inspections test to forty seven (47) participants' files and we noted the following situations:</p> <p>In eleven (11) files examined, there are no evidence of the inspection reports applicable for the fiscal year 2006-07.</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>The Inspectors Supervisor will keep control of all failed inspections utilizing the form entitled "HQS Enforcement Log", to follow up and comply with the timing of the correction according with regulations.</p> <p>HQS Inspection Training was</p>	Not Determinable	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009

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			conducted. Acquired mobile inspections tablets and software to facilitate the process of inspections and conducted on time as required.		
2007-22 (FA) Housing quality standards enforcement (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	In testing the Housing 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	The Program Director has established a Quality Unit, hired new personnel and designated a supervisor for the inspectors. The program Director also implemented HQS	Not Determinable	Full corrective action has been taken.

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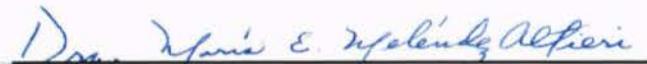
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		<p>does not indicate the final date by which each step of the deficiencies found are repair.</p> <p>2. Four (4) files examined without evidence of Inspector Officer's initials in the inspection report realized for housing units.</p> <p>3. Four (4) files examined, the inspection report Form HUD-52580 is incomplete, has areas that were not inspected and applied to the unit.</p> <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</p>	<p>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. (finding 1-7)</p>		

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		<p>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 the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.</p>			

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		7. Two (2) notifications sent to the owner were submitted too late which avoid that the deficiencies will be corrected on the time frame required by the federal regulations.			
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) participants' 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	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009
2006-04 (FS)	CAPITAL ASSETS WORKS OF ART AND HISTORICAL TREASURES	<i>Capital Assets:</i> 1. In the evaluation of real property records, we noted that he donated facilities Auditorium Pachin Vicéns			Audit finding is no longer valid since has passed more than two (2)

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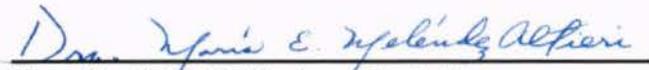
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>and the Paquito Montaner Stadium has not CRIM's Appraisal Certification as required by Law No. 537 of September 30, 2004. The Municipality made an internal study using actual costs of similar assets.</p> <p>2. In one land acquisition, the title of property was not available for our examination.</p> <p><i>Works of art and historical treasures:</i></p> <p>In the evaluation of the implementation procedures established for financial statements prepared under GASB Number 34, we noted that The Municipality does not have formal procedures established for the use and disposition of works of art and historical treasures.</p>			<p>years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>

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2006-05 - (FS)	CONSTRUCTION LICENSES PERMITS/ EXCISE TAXES	<p>We have performed audit procedures to fifteen (15) construction taxes files and noted the following exceptions:</p> <ol style="list-style-type: none"> 1. Three (20%) files selected were not available for our examination which avoids the corroboration of the following documents, such as: Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. This condition does not allow the corroboration of construction tax calculated by Municipality's officers. 		None	<p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>

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2006-08 (FS)	CONTRACT PROCUREMENT PROCESS	<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> <ol style="list-style-type: none"> 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. 2. In seven (50%) contracts, the contracts were filed to the Office of the Controller of Puerto Rico after the 15 days period required 		None	<p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the</p>

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					finding.
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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision

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					respect to the finding.
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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a

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					final decision respect to the finding.
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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has

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					finding and has not issued a final decision respect to the finding.
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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving

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					follow-up to the finding and has not issued a final decision respect to the finding.
2006-10 Reporting (FA)	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. Financial Status Report: Submitted on October 2, 2006, two months after the waiver extension date July 31, 2006. 2. Annual Progress Report: Submitted 136 days (four and half months) after due date of 120 days after the end of budget period (February 28, 2006)		None	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is

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Audit Period: July 1, 2008 – June 30, 2009

Fiscal Year: 2008-2009

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					not giving follow-up to the finding and has not issued a final decision respect to the finding.
2006-11 (FA) Sub-recipient monitoring	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No. 93.914)	<p>We have performed audit procedures to the program monitoring review process, and noted the following exceptions:</p> <ol style="list-style-type: none"> 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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the

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March 30, 2010

Date

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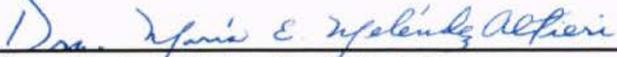
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.
2006-16 (FA) Cash management	HOME (CFDA No. 14.293)	<p>During our cash management test, we selected thirty-nine (39) checks for test and noted the following exceptions:</p> <ol style="list-style-type: none"> 1. Checks prepared without evidence of pickup date by supplier and participant which avoid corroborate time elapsing payment procedures. 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 	<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.</p>	None	<p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the</p>

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		<p>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 sent 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 5th day. Also a mailing</p>		<p>funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>

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			log will be established to maintain record of the mailing of the 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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the

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					funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.
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. 2. The commitment transactions recorded in IDIS report system were not recorded in program's	Procedures are in place to maintain over accounting records parallel to IDIS.	None	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who

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		<p>accounting records as encumbrances.</p> <p>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.</p>			delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.
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 been revised by the program to prevent the recurrence of this finding.	No determinable	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.
2006-22 (FA) Participant Eligibility	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Eligibility: 1. File examined did not include Sworn Statements, which specified that the participant does not have Value of Assets. 2. Files examined did not include evidence of Drug Free Certification.	The Quality Control unit was restructured to improve the established procedures to evaluate file content and report accuracy. Technical training will be provided to the personnel assigned.	None	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse.

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		<p>3. File examined did not include evidence of Family Department Certification (PAN).</p> <p>4. Files examined did not include evidence of ASUME certification.</p> <p>5. Files examined did not include evidence of US Citizenship Declaration Form.</p> <p>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.</p> <p>7. HAP contract without evidence of contract that applied to fiscal year</p>	<p>The Program Director will be aggressive in supervise the use of the checklist entitled "Listado de Cotejo del Reexamen Anual" that is going to be used by housing investigator to ensure the annual reexamination are performed according to regulations section 8.</p> <p>The internal control evaluation over contract will be strengthened to assure that contracts include all benefits to be granted to the participants.</p>		<p>The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>

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		<p>2005 or contract extension applied until June 30, 2006.</p> <p>8. Files examined did not include evidence of family members' Birth Certificates.</p> <p>9. Files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.</p> <p>10. Files examined did not include evidence of Department of Treasury Debt Certification.</p> <p>11. Files examined did not include evidence of Department of Treasury Tax Return Debt Certification by last five years.</p>			
2006-23 (FA)	SECTION 8 HOUSING	We have performed compliance test to	The Program Supervisor	No	Audit finding is

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Special Reporting	CHOICE VOUCHER (CFDA No. 14.817)	<p>twenty five participant's files and noted the following situations:</p> <ol style="list-style-type: none"> 1. File examined without complete items 5h (date when unit passed inspection) and 5i (date of last annual HQS Inspection) in HUD's Form 50058. 2. In five files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly. 	will monitor the family report Form HUD-50058 revising a monthly report that extracts information from the information system and matching with documentation in files.	determinable	no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2006-24 (FA) Reasonable Rent	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	We have performed compliance test to twenty five participant's 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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.

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2006-25 (FA) Housing Quality Standards Inspection	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	In the participant's files, we did not found evidence of the inspection reports applicable for the fiscal year 2005-06.	<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>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>Acquired mobile</p>	Not determinable	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the

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			inspections tablets and software to facilitate the process of inspections and conducted on time as required.		finding.
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: 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.	Quality Control Unit (QCU) and designated another personal, 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	Not determinable	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is

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		<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 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</p>	<p>regulations.</p> <p>HQS Inspections Training was conducted during the fiscal year 2008-2009.</p>		<p>not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>

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		housing units.			
2006-27 (FA) Utilities Allowance	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	In testing compliance procedures for utilities allowance, we found the following situations in twenty participant's files examined: 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	Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision

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					respect to the finding.

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