

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, 2010

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
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WITH ADDITIONAL REPORTS AND INFORMATION
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YEAR ENDED JUNE 30, 2010

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AUTONOMOUS MUNICIPALITY OF PONCE
BASIC FINANCIAL STATEMENTS
WITH ADDITIONAL REPORTS AND INFORMATION
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YEAR ENDED JUNE 30, 2010

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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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, 2010, 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 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 opinions.

The financial statements do not include financial data for the legally separated discrete component units, "Port of Ponce" and "Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D." ("Patronato"). Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the **Municipality's** primary government unless the **Municipality** also issues financial statements for the financial reporting entity that include the financial data for its component units. The **Municipality** has not issued such reporting entity financial statements. The amount by which departure would affect the financial statements of the governmental activities is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the **Municipality's** as of June 30, 2010, or the changes in financial position thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, in our opinion, except for the effects of omitting the legally separated discrete component units, as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of the **Municipality's**, as of June 30, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the **Municipality's**, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2011, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America required that the Management's Discussion and Analysis, on pages 3 through 16, and the Budgetary Comparison Schedule-General Fund, on page 61, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

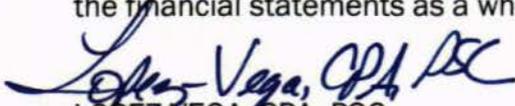


López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality's** financial statements as a whole. 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 also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 11, 2011

Stamp No. 2575469 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

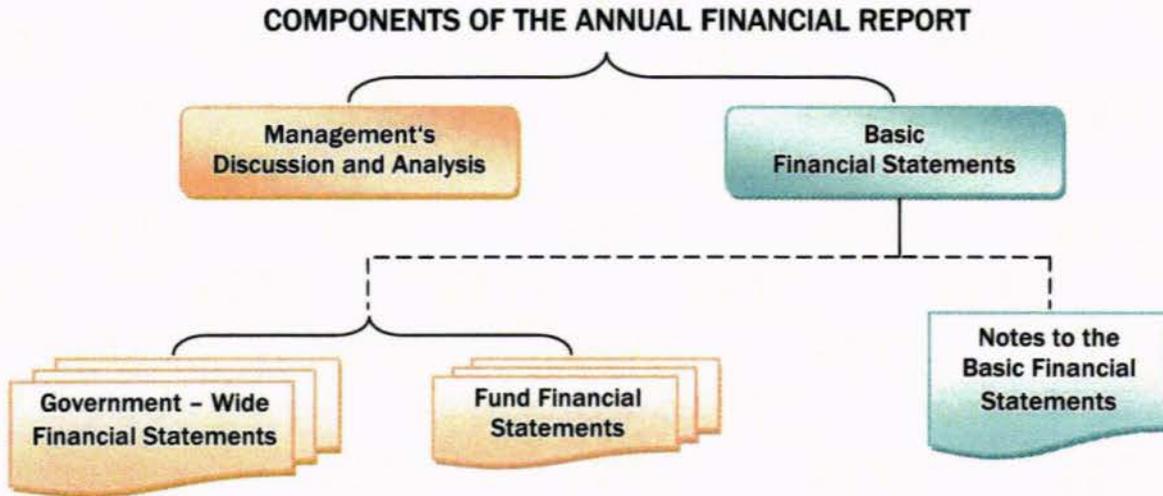
**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2010. 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, 2010

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.

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

The Municipality maintains six (6) individual governmental funds: General Fund, Health and Human Service Grants (HHS), Workforce Investment Act Grants (WIA), Debt Service, Housing Urban Development Grants (HUD) and Other Funds.

Budgetary comparison statements for the general fund are required by law and are included in the basic financial statements on page **60** 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 **25 to 59** of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2010 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 \$431,546,987 which represents an increase of 5% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2010, total liabilities amounted to \$331,366,632. Out of said amount, \$271,950,302 corresponded to long-term liabilities of which \$166,362,000 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 \$100,180,355 which represents an increase of 6% compared to prior fiscal year, as restated.
4. Total revenues available for the operating of activities as reflected in the Statement of Activities amounted to \$165,369,904, derived from the following sources: \$2,236,019; from charges for services; \$52,282,922 from operating grants and contributions; \$3,613,244 from capital grants and contributions obtained from other sources, and \$107,237,719 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 \$160,043,465.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a increase in the Net Assets figure by \$5,326,439.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balance of \$3,379,445.
8. In the fund financial statements, the governmental activities revenue increased \$16,409,352 (or 9%). Governmental activities expenditures decreased \$31,244,238 (or 14%).
9. As the end of the current fiscal year, the Municipality's general fund deficit amounted to \$22,205,821 compared to a general fund deficit of \$22,349,383 in the prior fiscal year, as restated.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of \$12,240,187.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

Government wide financial statement

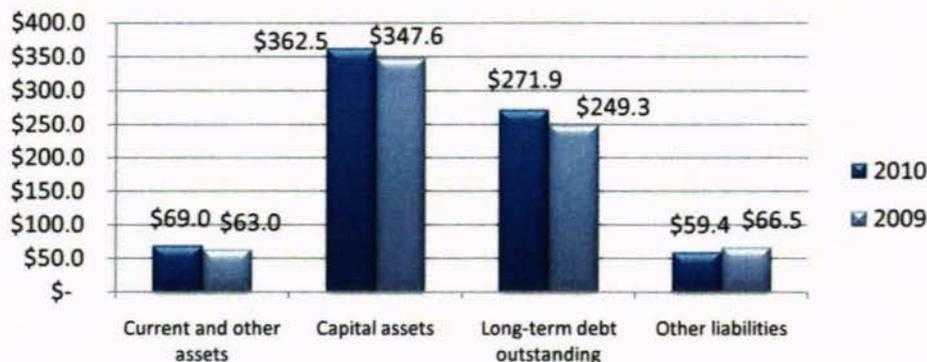
Net assets of the Municipality's governmental activities increased from \$94.85 million in 2009, as restated to \$100.18 million in 2010. Unrestricted (deficit) net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased from approximately \$(133.71) million at June 30, 2009, as restated, to approximately \$142.85 million at June 30, 2010.

TABLE 1

NET ASSETS

	Governmental Activities	
	2010	2009
Current and other assets	\$ 69,007,775	\$ 63,056,414
Capital assets	362,539,212	347,589,974
Total assets	431,546,987	410,646,388
Long-term debt outstanding	271,950,302	249,289,717
Other liabilities	59,416,330	66,502,755
Total liabilities	331,366,632	315,792,472
Net Assets:		
Invested in capital assets, net of related debt	212,037,212	202,712,974
Restricted for:		
Special Purposes	7,802,581	3,261,449
Capital Projects	4,934,076	13,100,888
Debt Service	9,944,961	(1,442,968)
Federal Grants	8,313,048	10,936,946
Unrestricted	(142,851,523)	(133,715,373)
Total net assets	\$ 100,180,355	\$ 94,853,916

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

Total revenues for the Municipality's governmental activities decreased by \$16.34 million in 2010. The total expenses decreased by \$20.78 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.

Program revenues in the statement of activities, page 17, for the fiscal year ended June 30, 2010 were as follows:

TABLE 2

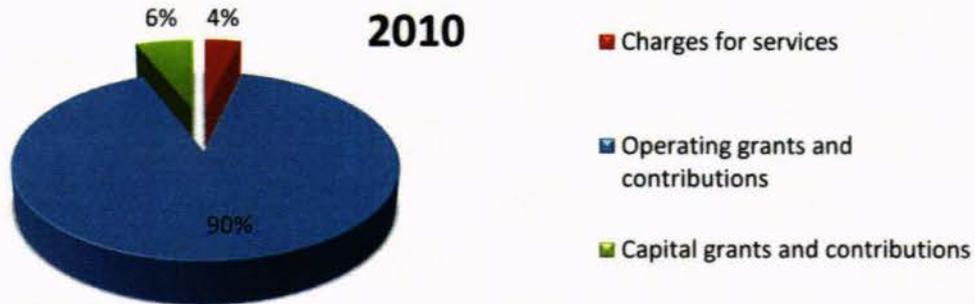
Program Revenues by Major Sources		
	GOVERNMENTAL ACTIVITIES	
	2010	2009
Charge for service	\$ 2,236,019	\$ 4,671,395
Operating grants and contributions	52,282,922	54,671,804
Capital grants and contributions	3,613,244	21,693,678
Total	\$ 60,132,185	\$ 81,036,877

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

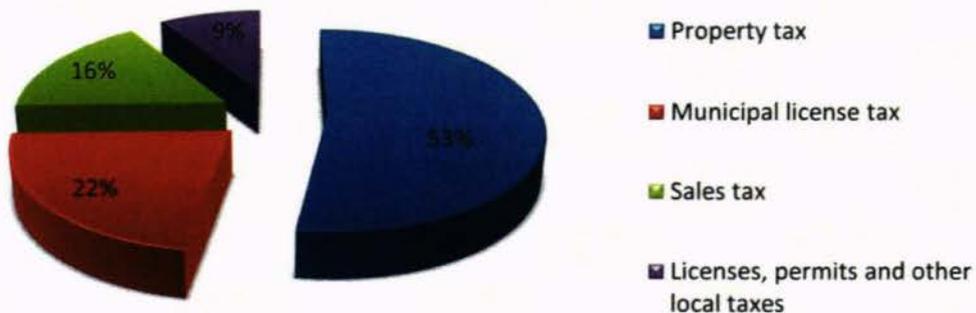


The Municipality's governmental-wide reported a change in net assets of \$5.3 million in 2010 and \$.89 million in 2009, as restated. Table 3 shows the principal resources collected by general governmental activities:

TABLE 3

	REVENUES	
	GOVERNMENTAL ACTIVITIES	
	2010	2009
Property tax	\$ 46,622,511	\$ 38,397,009
Municipal license tax	19,530,983	19,176,555
Sales tax	14,575,689	16,311,490
Licenses, permits and other local taxes	8,041,983	13,994,270
Total	\$ 88,771,166	\$ 87,879,324

2010



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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

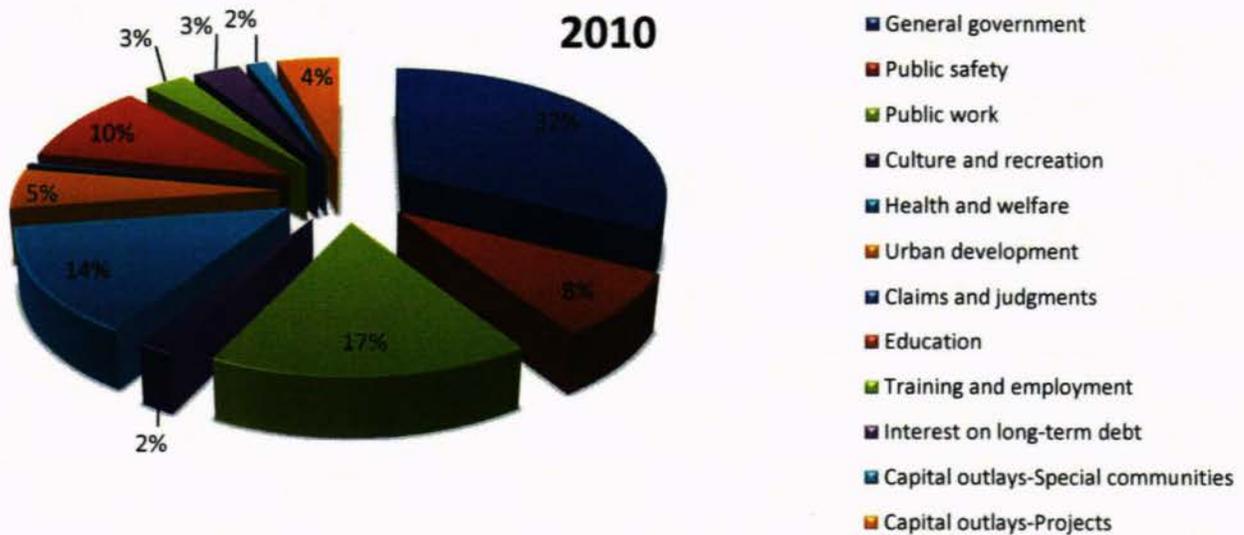
YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

The cost of all governmental activities for the year ended June 30, 2010 was \$160.04 millions as compared to \$180.8 millions in prior year. Table 4, presents the cost of each of the Municipality's largest program expenses for the year ended June 30, 2010.

TABLE 4

Total Expenses		
	GOVERNMENTAL ACTIVITIES	
	2010	2009
General government	\$ 51,772,181	\$ 49,289,864
Public safety	13,376,724	15,469,393
Public works	26,404,916	23,804,156
Culture and recreation	2,968,433	9,222,888
Health and welfare	21,816,831	18,341,696
Urban development	8,031,758	6,599,033
Claims and judgments	349,574	2,165,577
Education	16,043,056	16,495,895
Training and employment	4,771,872	6,448,567
Interest on long-term debt	5,207,490	6,270,465
Capital outlays:		
Special communities	2,257,214	3,523,112
Projects	7,043,415	23,193,872
Total	\$ 160,043,464	\$ 180,824,518



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

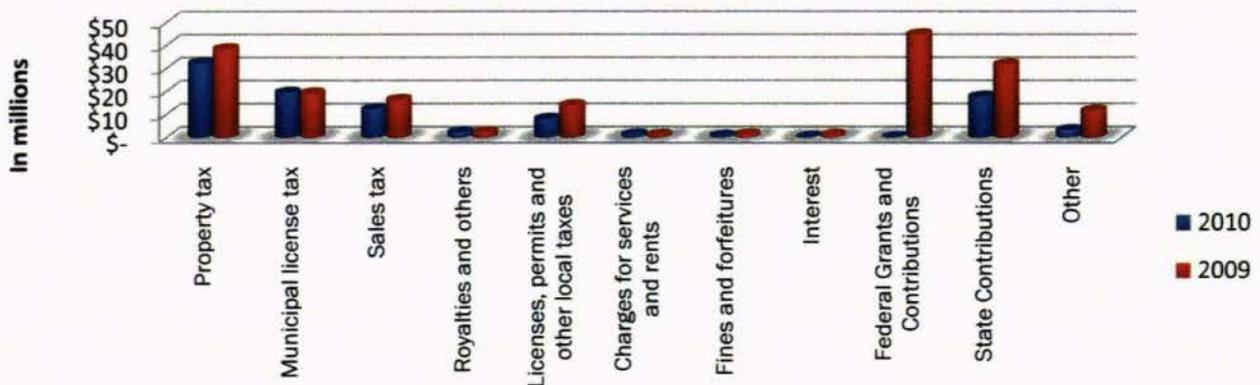
Governmental fund financial statements

The statement of revenues, expenditures and changes in fund balances presented on pages **20** and **21**, provide detailed information about the most significant funds of the Municipality. Revenues in the statement of revenues, expenditures and changes in fund balances for the fiscal year ended June 30, 2010 were as follows:

TABLE 5

GOVERNMENTAL REVENUES		Total Governmental Funds	
		2010	2009
Property tax		\$ 46,622,511	\$ 38,397,009
Municipal license tax		19,530,983	19,176,555
Sales tax		14,575,689	16,311,490
Royalties and others		2,236,019	2,238,364
Licenses, permits and other local tax		8,041,983	13,994,270
Charges for services and rents		1,292,275	1,127,773
Fines and forfeitures		801,188	1,305,258
Interest		520,126	1,123,478
Intergovernmental Revenues:			
State contributions		26,686,708	31,650,894
Federal grants and contributions		41,562,438	44,714,588
Other		3,437,176	11,676,769
Total		<u>\$ 165,307,096</u>	<u>\$ 181,716,448</u>

GOVERNMENTAL REVENUES



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS (CONTINUED)

The principal governmental revenues include property tax, municipal license tax, sales tax and licenses and permits amounted to \$88.77 million in 2010 and \$87.88 million in 2009.

Governmental funds, as presented in the balance sheet on pages **18** and **19**, reported a total fund balance of \$3.4 million in 2010 and a deficit of \$(3.44) million in 2009, 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 \$26.69 million; principally include \$7.82 million of the Commonwealth of Puerto Rico-Emergency Fund, \$10.2 millions of contributions in lieu of tax provided by PR Electric Power Authority, \$1.4 million of Subsidy and Lottery of Puerto Rico, and approximately \$2 million of the Department of Natural Resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2010, the Municipality had \$439.21 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 \$14.95 million net of depreciation accumulated.

TABLE 6

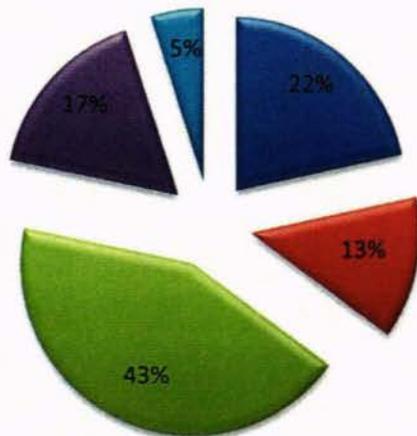
Capital Assets		
(Net of accumulated depreciation)		
	Governmental Activities	
	2010	2009
Land and land improvements	\$ 78,557,771	\$ 77,804,172
Construction in progress	48,437,807	81,190,814
Buildings and buildings improvements	156,809,185	70,337,753
Infrastructure	60,555,051	99,646,845
Equipment	18,179,398	18,610,390
Total	\$ 362,539,212	\$ 347,589,974

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)



Capital Assets

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

Infrastructure additions amounted to approximately \$20.7 million and building and building improvements additions amounted to \$31.3. Detailed information about the Municipality's capital assets is presented in Note 7 to the basic financial statements.

Debt

At year-end, the Municipality had \$271.9 million in bonds, notes and other long-term debts outstanding as compared to \$249.3 million in prior year, an increase of \$22.6 million, as shown in Table 7 below.

TABLE 7

Long Term Debt		
	Governmental Activities	
	2010	2009
General and special obligation	\$ 151,057,000	\$ 141,032,000
Loan guarantee assistance notes	15,305,000	3,845,000
Advances from CRIM	82,585,745	78,001,112
Other obligations	20,485,876	23,780,530
Interest due for sold account	2,516,681	2,631,075
Total	\$ 271,950,302	\$ 249,289,717

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 14 of 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 2009-2010 budget.

The statement of revenues and expenditures - general fund - budget vs. actual in page 60 presents an excess of expenditures over revenues of approximately \$12,240,187.

The original and final budget (General Fund) 2009-10 are presented in pages 60 and 61 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, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

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 **Autonomous 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 2010-2011.

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 "**Consorcio 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:

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

Port of Las Américas

The Port of Las Américas is a Port's facility that is being developed by the Port of the Americas Authority and comprises piers 4, 5 and 6 and certain adjacent land property of Autonomous Municipality of Ponce. The Authority and the Municipality executed a Memorandum of Understanding, which called for the eventual execution of a Ponce Facilities Agreement by which the Municipality would lease the municipal property to the Authority for a long term lease, but the MOU was not renewed. At this time the Municipality is negotiating with the Central Government the creation of a municipal Port Authority and the transfer of all the Port of the Américas assets to that entity. The Municipality is proposing that the new entity should administer and operate the Port of the Américas and the rest of Ponce Piers (1, 2, 3, 7 and 8). Negotiations are in process, while in the meantime the Port of the Américas Authority continue in possession of piers 3, 4, 5, and continue overseeing and financing the construction of the facilities with its own credit facilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

IVU Lotto

In the month of December 2010, the Autonomous Municipality of Ponce was selected by the government of Puerto Rico for the pilot program of the "IVU Lotto" implementation. In order to increase the sales tax revenues. The "IVU Lotto" consists of the installation of electronic devices in the point of sale terminals (POS) of all merchants in order to record all sales transactions and sales tax collections. All sales taxes collections must be submitted ten (10) days after the end of month. The government expects to increase the sales tax revenues in fifty percent in order to obtain an eighty percentage capitation.

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, 2010**

	Governmental Activities
Assets	
Cash (Note 2)	\$ 10,488,987
Accounts receivable net (Note 3):	
Municipal license tax (Notes 9)	214,047
Sales tax (Note 10)	684,940
Other	1,244,490
Due from governmental entities (Note 4)	1,075,770
Due from federal government (Note 4)	7,970,329
Due from other agencies (Note 6)	1,195,223
Other assets	
Restricted assets:	
Cash and cash equivalents (Note 2)	19,286,564
Cash and cash equivalents with fiscal agent (Note 2)	26,847,425
Capital assets (Note 7):	
Land, improvements and construction in progress	
Non-depreciable	98,779,171
Buildings, infrastructure and other capital assets, net of depreciation	263,760,041
Total capital assets	362,539,212
Total assets	431,546,987
Liabilities	
Accounts payable and accrued liabilities (Note 8)	30,246,687
Due to governmental entities (Note 11)	10,698,462
Deferred revenues (Note 13):	
Municipal license tax	15,702,265
Federal grant revenues	697,538
Other	11,231
Accrued interest	2,060,147
Noncurrent liabilities (Note 14):	
Due within one year	12,241,681
Due in more than one year	259,708,621
Total liabilities	331,366,632
Net Assets	
Invested in capital assets, net of related debt	212,037,212
Restricted for:	
Special purpose	7,802,581
Capital projects	4,934,076
Debt service	9,944,961
Federal grants	8,313,048
Unrestricted (deficit) net assets	(142,851,523)
Total net assets	\$ 100,180,355

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Activities
For the Year Ended June 30, 2010**

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 Governmental Activities
Primary Government					
General government	\$ 51,772,181	\$ -	\$ 671,467	\$ -	\$ (51,100,714)
Public safety	13,376,724	2,236,019	892,341		(10,248,364)
Public works	26,404,916		805,536	3,349,523	(22,249,857)
Culture and recreation	2,968,433		52,500	62,808	(2,853,125)
Health and welfare	21,816,831		15,796,798		(6,020,033)
Urban development	8,031,758		6,760,601		(1,271,157)
Claims and judgments	349,574				(349,574)
Education	16,043,056		13,923,735		(2,119,321)
Training and employment	4,771,872		5,561,430		789,558
Capital outlays:					
Special communities	2,257,214		7,818,514		5,561,300
Projects	7,043,415			200,913	(6,842,502)
Interest	5,207,490				(5,207,490)
Total governmental activities	\$ 160,043,464	\$ 2,236,019	\$ 52,282,922	\$ 3,613,244	(101,911,279)
General revenues:					
					46,622,511
Property taxes (Note 9)					19,530,983
Municipal license tax (Note 3)					14,575,689
Sales tax (Note 10)					8,041,983
Licenses, permits and other local taxes					13,502,492
Grants and contribution not restricted for specific purposes					520,126
Interest					4,443,935
Other					107,237,719
Total general revenue					5,326,440
Change in net assets					94,853,915
Beginning net assets, as restated					\$ 100,180,355
Net assets, end of year					

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	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)	\$ 10,488,987	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,488,987
Accounts receivable net (Note 3):							
Municipal licenses tax	214,047						214,047
Sales tax	684,940						684,940
Other	445,543				798,947		1,244,490
Due from central government (Note 4)	882,491			193,279			1,075,770
Due from federal government (Note 4)		927,730	1,277,063		5,130,636	634,900	7,970,329
Due from other funds (Note 5)	877,367	1,995,114			147,605	54,567	3,074,653
Due from other agencies (Note 6)	240,841			834,012		120,370	1,195,223
Restricted cash:							
Cash and cash equivalents (Note 2)	5,610,526	219,099	112,523		5,415,737	7,928,679	19,286,564
Cash and cash equivalents with fiscal agent (Note 2)	6,132,659			16,939,110		3,775,656	26,847,425
Total assets	\$ 25,577,401	\$ 3,141,943	\$ 1,389,586	\$ 17,966,401	\$ 11,492,925	\$ 12,514,172	\$ 72,082,428

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet (Continued)
Governmental Funds
June 30, 2010

	General Fund	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 8)	\$ 19,385,465	\$ 1,967,642	\$ 301,795	\$ -	\$ 4,126,357	\$ 4,465,428	\$ 30,246,687
Due to governmental entities (Note 11)	10,488,615				202,421	7,426	10,698,462
Due to other funds (Note 5)	2,197,039	127,252			253,244	497,118	3,074,653
General obligations:							
Bonds				6,212,000			6,212,000
Accrued interest				2,060,147			2,060,147
Deferred revenues (Note 13):							
Municipal license tax	15,702,265						15,702,265
Federal government		537,346			5,288	154,904	697,538
Other	9,838				1,393		11,231
Total liabilities	47,783,222	2,632,240	301,795	8,272,147	4,588,703	5,124,876	68,702,983
Fund (deficiency) balances:							
Reserved for:							
Encumbrances	7,081,967					115,229	7,197,196
Special purposes	1,155,705					6,646,876	7,802,581
Capital projects	4,401,873					532,203	4,934,076
Debt service				9,694,254	250,707		9,944,961
Federal grants		509,703	1,087,791		6,653,515	62,039	8,313,048
Unreserved (deficit) fund balance	(34,845,366)					32,949	(34,812,417)
Total fund balances	(22,205,821)	509,703	1,087,791	9,694,254	6,904,222	7,389,296	3,379,445
Total liabilities and fund balances	\$ 25,577,401	\$ 3,141,943	\$ 1,389,586	\$ 17,966,401	\$ 11,492,925	\$ 12,514,172	\$ 72,082,428

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, 2010

	General Fund	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 9)	\$ 32,274,274	\$ -	\$ -	\$ 14,348,237	\$ -	\$ -	\$ 46,622,511
Municipal license taxes (Note 3)	19,530,983						19,530,983
Sales tax (Note 10)	12,310,915			2,264,774			14,575,689
Royalties and others	2,236,019						2,236,019
Licenses, permits and other local taxes	8,041,983						8,041,983
Charges for services and rents	1,292,275						1,292,275
Fines and forfeitures	801,188						801,188
Interest	346,216			9,252	53,211	111,447	520,126
Intergovernmental revenue (Note 12):							
State contributions	17,730,707					8,956,001	26,686,708
Federal grants and contributions	147,190	15,217,615	5,341,084		17,958,629	2,897,920	41,562,438
Other	3,222,852				214,324		3,437,176
Total revenues	97,934,602	15,217,615	5,341,084	16,622,263	18,226,164	11,965,368	165,307,096
Expenditures							
Current:							
General government	55,099,028						55,099,028
Public safety	12,979,406					307,150	13,286,556
Public works	20,522,525						20,522,525
Culture and recreation	6,711,390					294	6,711,684
Health and welfare	9,702,082	2,243,128			9,678,938	90,736	21,714,884
Urban development	440,349				21,098,286	441,274	21,979,909
Claims and judgments	335,783						335,783
Education	329,604	12,974,487				2,305,672	15,609,763
Training and employment	84,936		5,341,084				5,426,020
Capital outlays:							
Special communities	2,257,214						2,257,214
Projects	3,795,353					7,233,911	11,029,264
Debt service:							
Principal				6,997,000	540,000		7,537,000
Interest				5,063,415	144,075		5,207,490
Total expenditures	112,257,670	15,217,615	5,341,084	12,060,415	31,461,299	10,379,037	186,717,120

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, 2010

	General Fund	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	(14,323,068)	-	-	4,561,848	(13,235,135)	1,586,331	(21,410,024)
Other financing sources (uses)							
Transfers in	107,679			1,877,140			1,984,819
Transfers out	(1,877,140)			(6,183)		(101,496)	(1,984,819)
Long-term debt issued	16,295,000				12,000,000		28,295,000
Bond issuance costs	(58,909)				(280)		(59,189)
Total other financing sources (uses)	14,466,630	-	-	1,870,957	11,999,720	(101,496)	28,235,811
Excess (deficiency) of revenues over expenditures and other financing sources	143,562	-	-	6,432,805	(1,235,415)	1,484,835	6,825,787
Fund balance, beginning as restated	(22,349,383)	509,703	1,087,791	3,261,449	8,139,637	5,904,461	(3,446,342)
Fund balance, ending	\$ (22,205,821)	\$ 509,703	\$ 1,087,791	\$ 9,694,254	\$ 6,904,222	\$ 7,389,296	\$ 3,379,445

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Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2010

Total Fund Balances - Governmental Funds \$ 3,379,445

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 98,779,171	
Depreciable Capital Assets	340,426,893	
Accumulated Depreciation	<u>(76,666,852)</u>	
Total Capital Assets		362,539,212

Principal payment on General Obligation Bonds Payable due within one year was accumulated as payable on the Governmental Fund Financial Statements, and for Governmental Wide Financial Statement was included as part of Non-current liabilities 6,212,000

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	166,362,000	
Property tax advance-CRIM	80,831,536	
LIMS Repayment Plan	719,382	
Property tax debt	1,754,209	
State Insurance Fund Corporation	58,090	
Retirement System Administration	2,332,002	
Puerto Rico Aqueduct and Sewer Authority	678,873	
Interest due for accounts sold-CRIM	2,516,681	
Claims and judgments	2,276,000	
Compensated absences	<u>14,421,529</u>	
Total Long-Term Liabilities		<u>(271,950,302)</u>

Total Net Assets of Governmental Activities \$ 100,180,355

**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, 2010**

Net Change in Fund Balances - Total Governmental Funds	\$	6,825,787
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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.		75,258,596
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Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period.		62,808
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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.		(8,432,590)
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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.		(51,939,576)
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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.		(21,485,000)
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Principal payment on General Obligation Bonds due within one year was accumulated as payable on the Governmental Fund Financial Statement, and for Governmental Wide Financial Statement was included as Non-current liabilities.		6,212,000
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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.		(3,748,421)
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Long-term claims and judgments 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.		5,050,009
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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.		(836,212)
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Repayment of long term interest due for accounts sold-CRIM 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 interest due for accounts sold-CRIM from prior year.		114,394
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Repayment of long term State Insurance Fund Corporation (SIFC) is an expenditure in Governmental Funds, but the repayment reduces long term SIFC in the Government-Wide Statement of Net Assets. The following amount represent the change in long term SIFC debt from prior year.		(58,090)
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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 (Continued)
For the Year Ended June 30, 2010

Repayment of long term Retirement System Administration (RSA) is an expenditure in Governmental Funds, but the repayment reduces long term RSA in the Government-Wide Statement of Net Assets. The following amount represent the change in long term RSA debt from prior year.	(2,332,002)
Repayment of long term Puerto Rico Aqueduct and Sewer Authority (PRASA) is an expenditure in Governmental Funds, but the repayment reduces long term PRASA in the Government-Wide Statement of Net Assets. The following amount represent the change in long term PRASA debt from prior year.	(678,873)
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.	445,616
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.	<u>867,994</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 5,326,440</u></u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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 included in the Municipality's reporting entity because of the significance or 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, 2010

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

The Municipality has two component units as detailed below. The "Port of Ponce" and "Patronato" are not included in the financial statement.

- **Port of Ponce** was formed as a result of 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 Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. ("Patronato")** was incorporated on July 28, 1995, as special nonprofit corporation for conservation, protection and development of a museum on Castillo Serralles and Cruceta El Vigía de Ponce, which are Municipality's buildings. In February 2002, the Municipality signed a proxy contract with Patronato for custody of these municipal properties for which receives a monthly administration fee for operation of the 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 not be obtained from their respective administrative offices.

Port of Ponce

Road 10 final

Playa de Ponce

Ponce, Puerto Rico 00731

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

(Patronato) El Vigía Street No. 17

Ponce, Puerto Rico 00730

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010

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, 2010

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 16 and 17.

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, 2010

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.

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 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".

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 and 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. Assets, Liabilities and Net Assets

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

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.
- 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 are 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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

(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 in governmental-wide financial statements.

The Municipality reviews the carrying value of its long-lived capital assets for possible impairment whenever events or changes in circumstances indicated that the carrying amount of the assets might not be recoverable. Any long-lived capital assets held for disposal are reported at the lower of their carrying amounts or fair value (donated assets). The Municipality has not identified any significant impairment of its long-lived assets as of June 30, 2010.

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, 2010, 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

- 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.
- 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.

COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

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) **Special Purpose** - Represent the reservations of amounts available for specific purpose provided by governmental entities and others.
- c) **Capital projects** - 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.
- d) **Debt Service Fund** - Represent net assets available to finance future debt service payments.
- e) **Federal Grants** - Represent the reservations of amounts available for specific use under federal grant programs.

10. Net Assets - In the government-wide statements, net assets are segregated into three categories:

- a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

11. 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.

12. 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, 2010 amounted to approximately \$2.42 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.43 million for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans being provided to the municipal employees. As of the date of this report, the municipal administration has taken initial steps toward assuming such responsibility under the municipal employee's health plan.

13. 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, 2010

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.

- 14. 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.

- 15. 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.
- 16. 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.
- 17. 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, 2010

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

18. 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.

19. Future adoption of accounting pronouncements- The Governmental Accounting Standards Board has issued the following statements that have effective dates after June 30, 2010:

- a. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extend to which a government is bound to observe constrains imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.
- b. GASB Statement No. 57, *Fund OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB No. 57). The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers): The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.
- c. GASB Statement No. 59, *Financial Instruments Omnibus* (GASB No. 59). The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is effective for periods beginning after June 15, 2010.
- d. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB No. 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

- e. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 (GASB No. 61)*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is effective for periods beginning after June 15, 2012.

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

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.

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, 2010.

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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

June 30, 2010, (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, 2010, 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, 2010, 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 \$250,000 per depositor. 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, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 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 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, 2010.

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 \$16,099,513 in the General Fund, \$219,099 in the Health and Human Services Grants, \$112,523 in the Workforce Investments Act Grants, \$5,415,737 in the Housing Urban Development Grants and \$7,928,679 in the Others Funds were fully collateralized at June 30, 2010.

The deposits at GDB of \$6,132,659 in the General Fund, \$16,939,110 in the Debt Service Fund and \$3,775,656 in the Others Funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010, 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, 2010, 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.

Accounting receivable – net of allowance for uncollectible accounts as of June 30, 2010, consists of the following:

	Gross Amount	Allowance	Net Amount
Municipal license tax	\$ 237,253	\$ 23,206	\$ 214,047
Sales tax	\$ 770,461	\$ 85,521	\$ 684,940

4. DUE FROM GOVERNMENTAL ENTITIES

Due from government entities represent grants and contributions due from local and federal governments.

<u>Local governments:</u>	<u>Amount</u>
Department of Education	\$ 57,978
Investment on our Infrastructure (PINI)	739,167
Department of Labor	85,346
Treasury Department-IVU	193,279
Total due from central government	\$ 1,075,770

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

4. DUE FROM GOVERNMENTAL ENTITIES (CONTINUED)

Federal governments:

Federal Emergency Management Agency (FEMA)	\$ 220,056
Homeland Security	175,504
El Tuque Satellite Center	19,532
Department of Justice- "ARRA"	107,071
Bulletproof Best Partnership	36,252
HHS - Ryan White	345,287
HHS - Head Start	8,557
HHS - Head Start- "ARRA"	573,886
HUD - CDBG	4,578,076
HUD - HOME	418,142
HUD - Emergency Shelter	134,418
Child and Adult Care Food Program	76,486
Workforce Investment Act Grant	<u>1,277,062</u>
Total due from federal government	<u>\$ 7,970,329</u>

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

<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
Head Start	\$ 81,674	Reimbursable expenditures
CDBG - HUD Funds	208,739	Reimbursable expenditures
Emergency Shelter	39,650	Reimbursable expenditures
Department of Justice - "ARRA"	139,349	Reimbursable expenditures
HHS - Ryan White	45,578	Reimbursable expenditures
FEMA	15,957	Reimbursable expenditures
Others	<u>346,420</u>	Reimbursable expenditures
Total	<u>\$ 877,367</u>	
<u>HHS grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ <u>1,995,114</u>	Reimbursable expenditures
Sub-Total HHS grants	<u>\$ 1,995,114</u>	
<u>HUD grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ <u>147,605</u>	Reimbursable expenditures
Sub-total HUD grants	<u>\$ 147,605</u>	
<u>Others</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ <u>54,567</u>	Reimbursable expenditures
Sub-total Others	<u>\$ 54,567</u>	
Total	<u>\$ 3,074,653</u>	

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. INTERFUND TRANSACTIONS

b. Due to other funds

<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
Head Start	\$ 1,433,189	Reimbursable expenditures
Early Head Start	503,687	Reimbursable expenditures
Department of Justice - "ARRA"	83,678	Reimbursable expenditures
CDBG	89,586	Reimbursable expenditures
Family Program	32,332	Reimbursable expenditures
Others	<u>54,567</u>	Reimbursable expenditures
Sub-total due to other funds	\$ 2,197,039	
<u>HHS Grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	<u>\$ 127,252</u>	Reimbursable expenditures
Sub-total other funds	\$ 127,252	
<u>HUD grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	<u>\$ 253,244</u>	Reimbursable expenditures
Sub-total HUD	\$ 253,244	
<u>Others Grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	<u>\$ 497,118</u>	Reimbursable expenditures
Sub-total HHS fund	\$ 497,118	
Total	<u>\$ 3,074,653</u>	

6. DUE FROM OTHER AGENCIES

Due from other agencies represents contributions due from local governments.

<u>Local governments:</u>	<u>Amount</u>
Property Tax-CRIM	\$ 834,012
Department of Police - Traffic Safety Commission	239,732
Department of Education - "ACUDEN"	52,500
Department of Health - Campaign "H1N1"	67,870
Others	<u>1,109</u>
Total due from local government	<u>\$ 1,195,223</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. 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 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2009	Additions	Reclassifications/ Retirements	Balance June 30, 2010
Capital asset, not being depreciated:				
Construction in progress	\$ 81,190,814	\$ 19,262,729	\$ (52,015,736)	\$ 48,437,807
Land	48,869,364	1,472,000		50,341,364
Total capital assets not being depreciated	130,060,178	20,734,729	(52,015,736)	98,779,171
Capital assets, being depreciated:				
Buildings and building improvements	81,947,420	31,275,718	75,940,408	189,163,546
Land improvements	31,003,412			31,003,412
Infrastructure	127,376,011	20,721,714	(75,874,632)	72,223,093
Machinery and equipment	45,447,599	2,589,243		48,036,842
Total capital assets being depreciated	285,774,442	54,586,675	65,776	340,426,893
Less accumulated depreciation for:				
Buildings and building improvements	(11,609,667)	(3,300,120)	(17,444,574)	(32,354,361)
Land improvements	(2,068,604)	(718,401)		(2,787,005)
Infrastructure	(27,729,166)	(1,393,834)	17,454,958	(11,668,042)
Machinery and equipment	(26,837,209)	(3,020,235)		(29,857,444)
Total accumulated depreciation	(68,244,646)	(8,432,590)	10,384	(76,666,852)
Total capital assets being depreciated, net	217,529,796	46,154,085	76,160	263,760,041
Governmental activities capital assets, net	\$347,589,974	\$ 66,888,814	\$ (51,939,576)	\$ 362,539,212

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 2,001,503
Public safety	511,089
Public works	3,020,345
Health and welfare	227,231
Culture and recreation	2,065,778
Urban development	83,449
Training and employment	76,111
Claims and judgments	13,791
Education	<u>433,293</u>
Total depreciation expense-governmental activities	<u>\$ 8,432,590</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

<u>Funds</u>	<u>Accounts Payable</u>	<u>Accrued Liabilities</u>	<u>Total</u>
General fund	\$19,385,465	\$ -	\$ 19,385,465
HHS program	684,846	1,282,796	1,967,642
WIA program	240,443	61,352	301,795
HUD program	4,037,078	89,279	4,126,357
Other governmental funds	<u>4,465,428</u>	<u>-</u>	<u>4,465,428</u>
Total on balance sheet	<u>\$28,813,260</u>	<u>\$ 1,433,427</u>	<u>\$ 30,246,687</u>
Plus: obligation paid with CAE funds			<u>6,212,000</u>
Total on statement of net assets			<u>\$ 36,458,687</u>

9. PROPERTY TAXES

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The personal property tax is self-assessed by the taxpayer. The assessment is made in a return, which must be filed with the CRIM by May 15 of each year. The real property tax is assessed by the CRIM on each piece of real estate and on each building.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. PROPERTY TAXES (CONTINUED)

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	(.20%)	(.20%)
	9.33%	7.33%

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

The additional special property tax - state is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government. The additional special property tax - municipal is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the debt service fund when collected by the CRIM and reported to the Municipality.

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. PROPERTY TAXES (CONTINUED)

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, 2010, presented as non current liabilities in the government-wide financial statements amounted to approximately \$82.5 millions of which \$836,212 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2010. 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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 citizens' 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 citizens' 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 \$14,575,689 during the year ended June 30, 2010.

11. DUE TO GOVERNMENTAL ENTITIES

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	\$ 4,894
Retirement System Administration	1,564,000
Internal Revenue Service	336,015
Department of the Family "ASUME"	28,372
State Insurance Fund Corporation	58,090
Puerto Rico Electric Power Authority	2,213,954
Puerto Rico Aqueduct and Sewer Authority	1,406,911
Governmental Development Bank	17,426
Puerto Rico Building Authority	3,456,341
PR Land Authority	1,125
Treasury Department	5,740
Commonwealth of Puerto Rico Employee Association	176,310
US Housing and Urban Development	649,249
US Department of Health and Human Services	<u>780,035</u>
Total	<u>\$10,698,462</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

12. INTERGOVERNMENTAL REVENUES

Following is detail of intergovernmental revenues:

<u>State agencies:</u>	<u>Amount</u>
Puerto Rico Department of Natural Resources	\$ 1,995,883
Puerto Rico Electric Power Authority	10,205,788
Subsidy and Lottery of Puerto Rico - CRIM	1,909,204
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures	1,387,500
Puerto Rico Legislative Joint Resolutions	1,113,908
Puerto Rico Police Department	239,732
Department of Education - "Library"	949,248
Puerto Rico Land Authority	135,739
School Infrastructure Development	793,346
Department of Labor	85,346
Commonwealth of Puerto Rico - "Emergency Funds"	7,818,514
Department of Family	<u>52,500</u>
 Total governmental funds	 <u>\$ 26,686,708</u>

<u>Federal agencies:</u>	<u>Amount</u>
HHS - Ryan White	\$ 2,243,128
HHS - Head Start	12,619,787
HHS - Head Start "ARRA"	354,700
American Recovery and Reinvestment Act	441,276
Workforce Investment Act Grant - Indirect Costs	135,000
Department of Labor - Workforce Investment Act	5,341,084
HUD - Emergency Shelter	600,655
HUD - CDBG - Entitlement	5,243,448
HUD - Section 8 Choice Voucher	9,937,570
HUD - Moderate I and II	262,015
HUD - Home Program	1,508,403
Department of Agriculture - USDA	1,551,525
Federal Emergency Management Agency (FEMA)	490,953
Department of Justice - JAG	160,000
Department of Justice - Homeland Security	200,984
Department of Justice - Anti Gang Initiative	33,397
HUD - Municipal Bank (CDBG loans)	403,464
Others	<u>35,049</u>
 Total governmental funds	 <u>\$ 41,562,438</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

13. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$15,702,265 in the general fund relates to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

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>
HHS - Head Start ARRA	\$ 537,346
U.S. Department of Justice	83,678
Homeland Security	71,226
Others	<u>5,288</u>
Total	<u>\$ 697,538</u>

14. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings Or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 72,742,000	\$ 15,860,000	\$ (4,480,000)	\$ 84,122,000	\$ 5,067,000
General refunding obligation bonds	9,515,000		(265,000)	9,250,000	290,000
Special refunding obligations bonds	21,780,000		(775,000)	21,005,000	830,000
Special obligation bonds	10,895,000		(335,000)	10,560,000	350,000
Special obligation bonds IVU	26,100,000		(415,000)	25,685,000	450,000
Special notes obligations	3,845,000	12,435,000	(540,000)	15,740,000	590,000
Property tax advance- CRIM	77,083,115	3,748,421		80,831,536	
Property tax debt	917,997	836,212		1,754,209	917,997
LIMS Refinancing debt-CRIM	1,164,998		(445,616)	719,382	472,525
State Insurance Fund Corporation		58,090		58,090	58,090
Retirement System Administration		2,668,002	(336,000)	2,332,002	874,439
Puerto Rico Aqueduct and Sewer Authority		1,527,464	(848,591)	678,873	678,873
Interest due for accounts sold- CRIM	2,631,075		(114,394)	2,516,681	114,395
Claims and judgment	7,326,009	1,492,800	(6,542,809)	2,276,000	
Compensated absences	<u>15,289,523</u>	<u>329,257</u>	<u>(1,197,251)</u>	<u>14,421,529</u>	<u>1,548,362</u>
Total long term debt	<u>\$ 249,289,717</u>	<u>\$ 38,955,246</u>	<u>\$(16,294,661)</u>	<u>\$ 271,950,302</u>	<u>\$ 12,241,681</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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. During the current year, the Municipality issued bonds for \$15,860,000, for operational activities. Bonds payable outstanding at June 30, 2010 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2010
1997 Series	7-1-12	\$ 11,265,000	4.86% to 6.75%	\$ 2,350,000
1999 Series	7-1-14	3,020,000	4.86% to 6.11%	1,145,000
2001 Series	7-1-25	31,765,000	2.70% to 6.13%	26,340,000
2004 Series	7-1-23	16,295,000	1.56% to 6.50%	13,220,000
2004 Series	7-1-29	10,650,000	2.25% to 5.55%	9,250,000
2004 Series	7-1-29	13,250,000	2.25% to 5.55%	11,475,000
2004 Series	7-1-23	12,020,000	2.45% to 5.50%	9,530,000
2004 Series	7-1-28	8,015,000	2.45% to 5.60%	6,745,000
2004 Series	7-1-28	4,535,000	2.45% to 5.60%	3,815,000
2005 Series	7-1-15	14,055,000	2.43% to 7.00%	7,880,000
2007 Series	7-1-31	10,565,000	1.41% to 6.50%	10,120,000
2007 Series	7-1-22	7,542,000	1.41% to 6.50%	7,207,000
2008 Series	7-1-33	26,100,000	2.43% to 7.50%	25,685,000
2010 Series	7-1-35	15,860,000	4.75% to 7.50%	15,860,000
Total general obligation bonds				<u>\$ 150,622,000</u>

These bonds, except the 2004 Series \$ 12,020,000, 2004 Series \$4,535,000, and 2004 Series \$8,015,000, are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2004 Series \$ 12,020,000 bond, 2004 Series \$4,535,000, and 2004 Series \$8,015,000 bonds are payable with General Fund resources.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

14. LONG-TERM LIABILITIES (CONTINUED)

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

Year Ending June 30,	Principal	Interest
2011	\$ 6,987,000	\$ 6,451,060
2012	7,494,000	8,764,058
2013	6,694,000	8,340,086
2014	7,193,000	7,920,421
2015	7,330,000	7,478,582
2016-2020	34,410,000	31,113,363
2021-2025	40,461,000	19,754,436
2026-2030	26,421,000	8,932,154
2031-2035	13,632,000	1,980,260
Total	\$ 150,622,000	\$ 100,734,420

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. **Notes Payable-** The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2010
Loan guarantee assistance (LGA) notes		\$ 20,890,000		\$ 12,000,000
Loan guarantee assistance (LGA) notes	8-1-15	3,845,000	8.04% to 8.19%	3,305,000
General obligation note 2010 series	7-1-16	435,000	6.0% to 7.5%	435,000
Total notes payable				\$ 15,740,000

Loan guarantee assistance notes (LGA) –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 note, totaling \$ 3,845,000 is payable in annual aggregate principal installments of \$540,000, plus interest rates which fluctuates from 8.04% to 8.19%.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

14. LONG-TERM LIABILITIES (CONTINUED)

The drawdown of monies, for the note totaling \$ 20,890,000, is made thru presentation of due invoices to the Agency, so the entirety of the loan proceeds are not in the Municipality's custody. As of June 30, 2010, the Municipality received \$12,000,000 but only has to provide for the loan's interest payment, until the full amount of the proceeds is received.

General obligation note 2010 series—During the current year, the Municipality issued note for \$435,000 for the acquisition of capital assets. This note is payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

Year Ending June 30,	Principal	Interest
2011	\$ 590,000	\$ 130,213
2012	600,000	126,689
2013	600,000	103,781
2014	605,000	77,159
2015	615,000	50,186
2016-2020	730,000	24,182
Total	\$ 3,740,000	\$ 512,210

5. **Property Taxes Debts**- These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM) at June 30, 2010. The CRIM issued a settlement noting that the advances exceeded collections by \$82.5 million. In the government-wide financial statements, the entire amount has been recognized as long term debt.
6. **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, 2010, the outstanding balance is \$719,382. This amount is presented in the government-wide financial statement.
7. **State Insurance Fund Corporation**- This amount represents the balance owed to the "CFSE" at June 30, 2010 that will be retained by the remittance during the next 12 months. The outstanding balance is \$58,090.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

14. LONG-TERM LIABILITIES (CONTINUED)

8. **Retirement System Administration (RSA)** - This amount represents the balance owed to the RSA at June 30, 2010 that will be paid in accordance to the payment plan. The outstanding balances \$2,332,002.
9. **Puerto Rico Aqueduct and Sewer Authority (PRASA)** - This amount represents the balance owed to the PRASA at June 30, 2010 that will be paid in accordance to the payment plan. The outstanding balances \$678,873.
10. **Interest due for accounts sold-CRIM**- This amount represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2010 as described in Note 9.
11. **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, 2010, the outstanding balance is \$2,276,000. This amount is presented in the government-wide financial statement.
12. **Compensated absences**- The government-wide statement of net assets includes approximately \$14,400,000 of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

15. RETIREMENT PLAN (CONTINUED)

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

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

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

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

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

15. RETIREMENT PLAN (CONTINUED)

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, 2010 was approximately \$4.2 millions. The Municipality total payroll for all employees was approximately \$49.3 millions. For the two preceding fiscal years, the Municipality contributed approximately \$4 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, 2010, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

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 & Construction

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, 2010, amounted to approximately \$1.9 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.

The Municipality had commitments at June 30, 2010 of approximately \$30 millions for the construction, improvements, or renovation of several municipal facilities.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

18. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS

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, 2010, 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.

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 \$2.27 millions at June 30, 2010.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

19. CLOSURE AND POST CLOSURE CARE COST AND LANDFILL OBLIGATIONS

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, 2010, the estimated remaining life was approximately 7.5 years.

The Municipality formalized an agreement with Consolidated Waste Corp. for the gather, transportation and disposal of municipal waste with period of ten (10) years from October 1, 2009 to September 30, 2019.

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 ten (10) years incidental with the agreement of gather transportation and disposal of non-hazardous waste. 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 ranges from \$6.26 per residential unit, in the first year, to \$7.40 in the final year of the agreement. For school facilities the charges ranges from \$150 in the first year, to \$179.26 in the final year of the contract. This amounts are payable monthly to the contractor, and services for public housing are to be free of charges.

Besides, the Municipality formalized an agreement for disposal services and the lease, management and operation of the Ponce Municipal Landfill. The term of this agreement commences on the date execution (October 15, 2004) of the agreement and continues until the earlier of (a) June 30, 2034, (b) the date on which the Landfill (including any expansion) is completely filled and rendered unusable, or (c) such date as the agreement is earlier terminated pursuant to the provisions of this agreement.

The work under this agreement consist of all activities and resources, including the management, supervision, materials, equipment, labor and all other activities necessary or appropriate for the operation of the operation of the landfill in accordance with this agreement and in accordance with all applicable laws and regulations.

Contractor shall assume all costs related to all the activities and resources the adequately manage and operate the landfill, including the disposal services, except as otherwise provided in this agreement.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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:

	General Fund	Capital Projects Fund Loan \$26.1M	HHS Grants	Workforce Investment Act Grants	Debt Service Fund	HUD Grants	Others Funds	Other Governmental Funds
Fund balance, as previously reported, 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)
Cancellation of prior year accounts payable	322,082							322,082
Reclassification from Fund Financial Statements to Government Wide Financial Statements (Retirement System Administration)	1,788,411							1,788,411
Reclassification for major fund presentation		(5,704,174)					5,704,174	-
Adjustment to correct GASBS 33 Interpretation	-	-	-	(4,491,470)	-	267,749	2,354	(4,221,367)
Fund balance, beginning as, restated	<u>\$(22,349,383)</u>	<u>\$ -</u>	<u>\$ 509,703</u>	<u>\$ 1,087,791</u>	<u>\$ 3,261,449</u>	<u>\$ 8,139,637</u>	<u>\$ 5,904,461</u>	<u>\$ (3,446,342)</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	\$ 96,964,789
Cancellation of prior year accounts payable	322,082
Reclassification from Fund Financial Statements to Government Wide Financial Statements (Retirement System Administration)	1,788,411
Adjustment to correct GASBS 33 Interpretation	<u>(4,221,367)</u>
Net assets, beginning as restated	<u>\$ 94,853,915</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

21. SUBSEQUENT EVENTS

The Port of Las Americas

The Port of Las Américas is a Port's facility that is being developed by the Port of the Americas Authority and comprises piers 4, 5 and 6 and certain adjacent land property of Autonomous Municipality of Ponce. The Authority and the Municipality executed a Memorandum of Understanding, which called for the eventual execution of a Ponce Facilities Agreement by which the Municipality would lease the municipal property to the Authority for a long term lease, but the MOU was not renewed. At this time, the Municipality is negotiating with the Central Government the creation of a municipal Port Authority and the transfer of all the Port of the Américas assets to that entity. The Municipality is proposing that the new entity should administer and operate the Port of the Américas and the rest of Ponce Piers (1, 2, 3, 7 and 8). Negotiations are in process, while in the meantime the Port of the Américas Authority continues in possession of piers 3, 4, 5 and continue overseeing and financing the construction of the facilities with its own credit facilities.

IVU Lotto

In the month of December 2010, the Autonomous Municipality of Ponce was selected by the government of Puerto Rico for the pilot program of the "IVU Lotto" implementation. In order to increase the sales tax revenues. The "IVU Lotto" consists of the installation of electronic devices in the point of sale terminals (POS) of all merchants in order to record all sales transactions and sales tax collections. All sales taxes collections must be submitted ten (10) days after the end of month. The government expects to increase the sales tax revenues in fifty percent in order to obtain an eighty percentage capitation.

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

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 38,211,565	\$ 38,211,565	\$ 32,274,274	\$ (5,937,291)
Municipal license tax	20,900,000	20,900,000	19,530,983	(1,369,017)
Sales tax	11,525,000	11,525,000	12,034,889	509,889
Licenses, permits and other local taxes	14,647,677	14,647,677	7,267,465	(7,380,212)
Royalties and others	2,100,000	2,100,000	2,236,019	136,019
Charges for services	780,000	780,000	1,281,778	501,778
Intergovernmental – State Contributions	10,087,474	11,793,280	13,502,492	1,709,212
Intergovernmental – Federal Contributions	183,000	183,000	135,000	(48,000)
Fines and forfeiture	1,200,000	1,200,000	801,188	(398,812)
Interest	500,000	500,000	286,235	(213,765)
Miscellaneous	<u>1,728,011</u>	<u>1,728,011</u>	<u>2,350,471</u>	<u>622,460</u>
Total revenues	<u>101,862,727</u>	<u>103,568,533</u>	<u>91,700,794</u>	<u>(11,867,739)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	48,591,699	51,401,477	54,369,880	(2,968,403)
Public safety	13,492,533	13,215,869	12,979,416	236,453
Public works	19,930,555	19,492,223	17,586,689	1,905,534
Health and welfare	9,701,634	9,701,634	9,701,634	-
Culture and recreation	7,668,870	7,085,029	6,675,865	409,164
Urban development	600,298	459,378	414,574	44,804
Claims and losses	-	335,783	335,783	-
Operational Transfer to Debt Service Fund	<u>1,877,138</u>	<u>1,877,140</u>	<u>1,877,140</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>101,862,727</u>	<u>103,568,533</u>	<u>103,940,981</u>	<u>(372,448)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			\$ (12,240,187)	\$ (12,240,187)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 91,700,794
Differences-budget to USGAAP:				
Non-budgeted revenues				6,341,487
Loan Proceed				<u>16,295,000</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$114,337,281</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$103,940,981
Differences-budget to USGAAP:				
Non-budgeted revenues				12,461,570
Prior year encumbrances recorded as current year expenditures for USGAAP basis				609,999
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(2,818,831)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$114,193,719</u>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2010

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, 2010 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2010.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

<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	\$ 1,551,525
Total U.S. Department of Agriculture			<u>1,551,525</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<u>Direct Programs:</u>			
Community Development Block Grant - Entitlement Grants	14.218		4,011,016
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	14.253		1,232,532
Emergency Shelter Grants Program	14.231		601,114
Home Investment Partnerships Program	14.239		1,508,403
Community Development Block Grants-Section 108 Loan Guarantees	14.248		14,033,055
Section 8 - Housing Choice Voucher	14.871		9,436,639
Section 8 - Project - Based Cluster:			
Lower Income Housing Assistance Programs:			
Section 8 -Moderate Rehabilitation I	14.856		26,306
Section 8 -Moderate Rehabilitation II	14.856		215,991
Total U.S. Department of Housing And Urban Development			<u>31,065,056</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

<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 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		1,114,103
Youth Activities	17.259		1,324,496
Dislocated Workers	17.260		<u>1,209,828</u>
Total Workforce Investment Act			<u>3,648,427</u>
American Recovery and Reinvestment Act of 2009:			
ARRA-Adult Program	17.258		396,861
ARRA-Youth Activities	17.259		913,537
ARRA-Dislocated Workers	17.260		<u>382,259</u>
Total American Recovery and Reinvestment Act of 2009			<u>1,692,657</u>
Total U.S. Department of Labor			<u>5,341,084</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<u>Direct programs:</u>			
Administration for Children, Youth and Families - Head Start	93.600		12,619,787
Head Start, Recovery Act Funded (ARRA) Early Head Start,	93.708		337,314
Recovery Act Funded (ARRA)	93.709		17,386
HIV Emergency Relief Project Grants	93.914		<u>2,243,127</u>
Total U.S. Department of Health and Human Service			<u>15,217,614</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

<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		19,488
Anti-gang Initiative	16.710		441,276
Total U.S. Department of Justice			460,764
DEPARTMENT OF TRANSPORTATION:			
Commonwealth of Puerto Rico Police Enforcement:			
State and Community Highway Safety	20.600		1,119
Total U.S. Department of Transportation			1,119
DEPARTMENT OF EDUCATION:			
Institute of Museum and Library Services - Grant for States	45.310		754,148
Total U.S. Department of Education			754,148
U.S. DEPARTMENT OF HOMELAND SECURITY:			
<u>Pass through Programs:</u>			
Commonwealth of Puerto Rico of Justice:			
Homeland Security Federal Emergency Management Agency (FEMA) Severe Storms and Flooding	97.029		78,061
Port Security Grant Program	97.056		52,881
Homeland Security Grant Program	97.067	2008-GE-T8 -0001 2007-GE-T7 -0043	144,167 3,935

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

<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 HOMELAND SECURITY:			
National Center for Missing and Exploited Children (NCMEC)-Amber Alert	97.076		<u>490</u>
Total U.S. Department of Homeland Security			<u>279,535</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 54,670,844</u>

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, 2010

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>\$ 54,670,844</u>
Federal expenditures per basic financial statements included herein:	
Health and Human Services Grants	\$ 15,217,615
Workforce Investment Act Grants	5,341,084
Housing and Urban Development Grants	31,461,299
Others	<u>2,650,306</u>
Total	<u>\$ 54,670,844</u>

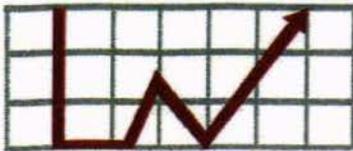
3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2010, **the Municipality** provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 1,916,605
Community Development Block Grant (CDBG) - Entitlement (14.218)	<u>1,369,168</u>
Total	<u>\$ 3,285,773</u>

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2010, **the Municipality** paid the amount of \$ 540,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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- Puerto Rico Society of Certified Public Accountants

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, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated February 11, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses, and therefore, there can be assurance that all deficiencies, or significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses; as items **10-01** thru **10-03**.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of finding and questioned costs to be significant deficiencies; as item **10-04**.

**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)**

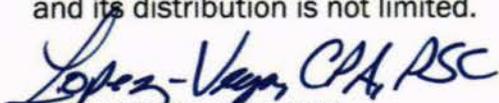
Compliance and Other Matters

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 **10-01** thru **10-03**.

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 29, 2011.

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
February 11, 2011

Stamp No. 2575470 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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S 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 **Autonomous Municipality of Ponce's** compliance 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, 2010. 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 referred to above 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 identified in the accompanying schedule of findings and questioned costs 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 **10-01** thru **10-28** 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, matching and earmarking, period of availability of federal funds, procurement and suspension and debarment, and special test and provisions that are applicable to 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.

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

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 identified in the in the accompanying schedule of finding and questioned costs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the **Autonomous Municipality of Ponce** is responsible for establishing and maintaining effective internal control over compliance with compliance requirements referred to above. In planning and performing our audit, we considered the **Autonomous Municipality of Ponce's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in internal control over compliance and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **10-06, 10-07, 10-09** thru **10-12, 10-14, 10-15, 10-17, 10-21** thru **10-24 and 10-27** to be material weaknesses.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items; **10-05, 10-06, 10-08, 10-13, 10-16, 10-18** thru **10-20, 10-25 and 10-26** to be significant deficiencies.

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 29, 2011.

This report is intended for the information of the management, 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 29, 2011

Stamp No. 2575471 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**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

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
14.248	Community Development Block Grant – Section 108 Loan Guarantees
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	\$1,640,125
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, 2010

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	10-01
Requirement	Operating deficit of general fund (MW)
Statement of Condition	As of June 30, 2010, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$34,845,366 in the general fund as presented in the balance sheet-governmental funds. Also, this is the third 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	<p>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.</p> <p>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.</p> <p>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.</p>
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, 2010

Section II – Financial Statements Findings

Finding Reference **10-01 (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 took the following measurements to control the expenditures and to reduce the accumulated deficit:

- On July 2010 a labor reduction policy was implemented consisting in reducing to all employees, one (1) labor lay per month and 5% of reduction in the salaries for Department Directors. A similar policy was implemented on July, 2009 but the reduction to all employees was of two (2) labor days per month.
- Beginning on July 2009, the tax rate applicable to real and personal property was increased.
- An aggressive debt collection plan was implemented by the Finance Director in order to obtain additional resources of income related to municipal licenses tax, property tax, and construction permits.

A provision for deficit reserve of \$100,000 was included in the municipal budget of the fiscal year 2010-2011.

Partially Corrected

Implementation Date: During Fiscal Year 2011-2012

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, 2010

Section II – Financial Statements Findings

Finding Reference	10-02
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, 2010

Section II – Financial Statements Findings

Finding Reference **10-02 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

On March 23 2011, the Finance Director designated a special committee to evaluate the information system (SIGMA). The committee will evaluate the mentioned deficiencies and will submit a written report containing recommendations to improve, update or replace the information system. The special committee is integrated by the Accounting Supervisor, the Director of the Information and Technology Department and the Municipal Officials responsible to prepare the financial statements.

Still in process

Implementation Date: During Fiscal Year 2011-2012

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, 2010

Section II – Financial Statements Findings

Finding Reference	10-03
Requirement	Municipal license tax revenues (MW)
Statement of Condition	Municipal license tax revenues of the fiscal year 2010-2011, which were collected in advance from taxpayers between January 1 and June 30, 2010 (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, 2010. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2010-2011, 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, 2010

Section II – Financial Statements Findings

Finding Reference **10-03 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

With the adoption of the corrective actions mentioned in the finding 2010-01 and the preparation of cash flow forecasts and projections to anticipate cash flow shortage, the Municipality expects to avoid in future years the use of the licenses tax revenue collection in advance to cover operating costs and cash flows shortages of the current fiscal year.

Partially Corrected

Implementation Date: During Fiscal Year 2011-2012

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, 2010

Section II – Financial Statements Findings

Finding Reference	10-04
Requirement	Payroll and Related Liabilities – Personnel, Employment, Rate Authorizations and Timekeeping
Statement of Condition	<p>During our test, we examined thirty-five (35) employee files, the assistance time cards and accrue vacation and sick cards; after procedures performed, we noted the following situations:</p> <ul style="list-style-type: none">a. In two (2) cases, the sick vacations days at 6/30/10 per Compensated Cards did not agree with the License Record prepared by client. The differences fluctuate between 4 to 18 days.b. In four (4) cases, the regular vacations days at 6/30/10 per Compensated Cards did not agree with the License Record prepared by client. The differences fluctuate between 2 to 4 days.c. In one (1) case, the Municipality did not decreased from the register the days the employee was absent.d. In six (6) cases, the gross amount payment per payroll did not agree with the gross amount payment included in the employee's file documentation.e. In ten (10) cases, the Compensated Absences Card was not available for our examination.f. The Municipal Police License Record at 6/30/10 was not available for our examination.
Criteria	The Revised Regulations for Administration the Municipalities of Puerto Rico, Chapter IV, Section 20 (1) establish that the Municipality will prepare the payroll based on the employee's files.
Cause of Condition	The Municipality's internal control procedures failed to assure the proper payment and preparation of payroll, and the accuracy of compensated absences balance ledger.
Effect of Condition	The Municipality is not in compliance with Chapter (IV), Section 20 (1) of Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section II – Financial Statements Findings

Finding Reference **10-04 (Continued)**

Recommendation We recommend the Municipality to improve its internal control procedures to assure that documents contained in the employee's file and other related documents support the payroll payments.

Questioned Costs None

Management Response and Corrective Action The new personnel director will evaluate the established internal procedures related to the employee's files and payroll payments in order to improve such procedures and to assure that mentioned situations are not repeated. The Director, also, will assign to an employee the responsibility of evaluate the employee's files, at random, to verify the compliance with the required documents.

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Lcda. Blanca I. Quetell Torres, Human Resources Director

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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	10-05
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Financial Reporting (L)
Statement of Condition	SF-425, Federal Financial Report (cash status only) was not submitted for the fiscal year ended June 30, 2010.
Criteria	24 CFR, Subtitle A, Subpart C, Section 85.41 states (a) <i>General</i> (1) Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for: (i) Submitting financial reports to Federal agencies. Also, Section (b) states that grantees will use Standard Form to report the status of funds for all non-construction grants and for construction grants when required in accordance with 85.41(e)(2)(iii) of this section. (3) <i>Frequency</i> . The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination grant support. Besides, Section 85.41 (c) (ii) states that these reports will used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees. The format of the report may be adapted as appropriate when reporting is to be accomplished with the assistance of automatic data processing provided that the information to submitted id not changed in substance.
Cause of Condition	The Program financial management failed to report the disclosure of the financial results and failed to have available for examination by us during the application of planned audit procedures.
Effect of Condition	The Program is not in compliance with the Code of Federal Regulation 24, Subpart C, Sec. 85.41.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-05 (Continued)**

Questioned Costs None

Recommendation We recommend that the Program should implement procedures in order to assure that all Financial Status Report are prepared and submitted on time. Also, we recommend that the Program's Management instruct the Program accounting staff to prepare financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.

**Management Response
and Corrective Action**

The Program will implement adequate procedures to prepare and submit on time, all financial reports, including the report SF-425 - Federal Financial Report (cash status only).

Also, the Program's Director will instruct the Program accounting supervisor to prepare Financial Reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-06
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Procurement and Suspension and Debarment (I) (MW)
Statement of Condition	<p>During our audit of procurement contract provisions test of two (2) contracts, we found one (1) contract, for the amount of \$2,905,000 of which \$905,000 were paid with CDBG Fund, without the following federal provisions:</p> <ul style="list-style-type: none">a) Executive Order 11246 "Equal Employment Opportunity";b) Davis Bacon Act;c) Sections 103 and 107 of the Contract Work Hours & Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations;d) Granting access to GAO or other federally agency, to books, documents, etc.;e) Clean Air Act and Water Act;f) Energy Policy and Conservation Act;g) Retention of all required records for three years.
Criteria	<p>24 CFR Subpart C, Section 85.36 (b), <i>Procurement standards</i>. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards identified in this section.</p> <p>24 CFR Subpart C Section (i) (3) Compliance with Executive Order 11246 of September 24, 1965, entitled "Equal Employment Opportunity", as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)(5)</p>

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-06 (Continued)**

Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2,000 awarded by grantees and subgrantees when required by Federal grant program legislation) (6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327A 330) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2,000, and in excess of \$2,500 for other contracts which involve the employment of mechanics or laborers) (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. (12) Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857 (h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000). (13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94A 163, 89 Stat. 871).

Cause of Condition The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.

Effect of Condition The Program is not in compliance with the Code of Federal Regulation 24, Subpart C, Sec. 85.36.

Recommendation We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-06 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Programs management will discuss the mentioned situations with the Legal Services Director in order to establish adequate procedures to assure that the contracts contain all provisions requested by federal agencies.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Lcda. Carmen E. Torres Rodríguez, Legal Services Director

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-07
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Allowable Cost/Cost Principles and Procurement and Suspension and Debarment (B), (I), (MW)
Statement of Condition	In our test of fifteen (15) disbursements voucher, we noted the following situation: From January 2010 to February 2010 were ordered and paid services to a contractor for improvements to a building where Section 8 Program has its facilities for \$63,201.23 without getting into a competition process.
Criteria	24 CFR Subpart C, Section 85.36 (a) and (b) States, When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from 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 sub grantees will follow paragraphs (b) through 9 (i) in this section. Procurement standards, (1) Grantees and sub grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurement conform to applicable Federal law and the standards identified in this section. (2) Grantees and sub grantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. 24 CFR Subpart C, Section 85.36 (c), Competition (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 85.36 Some of the situations considered to be restrictive of competition. Grantees and sub grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Allowable cost, Applicable OMB cost principles, agency program regulations, and the terms of grant and sub grant agreements will be followed in determining the reasonableness, allow ability, allowcability of costs. Source documentation, accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and sub grant award documents.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-07 (Continued)
Cause of Condition	The Program did not maintain an effective control over purchase order, contract, and supporting documents of disbursement voucher.
Effect of Condition	The lack of effective internal controls over disbursement and procurement area represent that the Program is not in compliance with laws and regulations concerning disbursements procedures.
Recommendation	The Program should evaluate its internal controls over disbursement and procurement and ascertain that comply with the applicable laws and regulations.
Questioned Costs	\$63,201.23
Management Response and Corrective Action	<p>The Program will evaluate its internal controls over disbursement and procurement to avoid the repetition of the mentioned situation.</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Lcda. Carmen E. Torres Rodríguez, Legal Services Director</p>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-08
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 \$435,494 between the IDIS Report (CO4PR27) and the programs' accounting records. As of June 30, 2010, the amount disbursed per IDIS was \$11,361,024 versus \$11,796,519 per accounting records. The differences arise from grants from the 2000 through 2009 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	<p>None</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-08 (Continued)**

**Management Response
And Corrective Action**

The Program will implement adequate procedures to prepare and submit on time, all financial reports, including the IDIS Report (CO4PR27). Also, the Program's Director will instruct the Program accounting supervisor to prepare Financial Reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Lcda. Carmen E. Torres Rodríguez, Legal Services Director

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

YEAR ENDED JUNE 30, 2010

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-09
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Cash Management (C) (MW)
Statement of Condition	We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures we found that the Program maintained during the current fiscal year average cash balance in books of approximately \$4,342,400.05. At June 30, 2010, the cash balance in books was \$4,344,994.36. This situation presents potential for excessive federal cash on hand.
Criteria	24 CFR Subpart C, Section 85.20 (a) (3) and (a) (7), Internal control, Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Grantees and sub grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. OMB Common Rules requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Program does not maintain a regular monitoring of the excessive balance in cash and check outstanding for long time.
Effect of Condition	This situation could cause reimbursement of funds to the federal agencies correspond of interest earned by maintain excess cash on hand and by request funds that not represent an immediate need.
Recommendation	The Program should take the effective and necessary action to analyze the real causes of this situation and to improve compliance with federal requirement for cash management regarding payment to tenant and landlord and cash balance.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

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

Questioned Costs None

**Management Response
and Corrective Action**

The Program management will evaluate the causes of the excessive cash on hand and will take the adequate actions to use the excessive funds to cover necessities to improve the services to the participants and the employees work conditions, in compliance with the Program regulation.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-10
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Participant Eligibility Test (E) (MW)
Statement of Condition	<p>We have performed an eligibility test for sixty (60) participant's files and noted the following exceptions:</p> <ul style="list-style-type: none">a) In eight (8) participant's files examined the PHA staff did not include evidence of the third party verifications.b) In six (6) cases, the eligibility determination made by and approved by responsible officials did not agreed with the third party documentation.c) In six (6) cases, the tenant rent payment calculation was not determined in accordance with federal regulations.d) In four (4) participant's files examined, the Inspection Form for fiscal year audited was not available for inspection.e) In one (1) case, the Inspection Form was incomplete.f) In nine (9) participant's files examined, the HAP Contract applicable for the fiscal year audited was not available for inspection.g) In two (2) participant's files, the Form HUD-50058, Family Report (OMB No. 2577-0083), applicable for the fiscal year audited was not available for inspection.h) In nineteen (19) cases, the PHA did not complete the Owner's Disclosure to the tenant of the presence of any known lead-based paint and/or lead based paint hazards.
Criteria	<p>24 CFR Subpart B, Section 5.609 established that as a condition of admission or continued occupancy the tenant must provide all necessary information and documentation required and tenant's</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

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

authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a) established that PHA responsibility for reexamination of family income and composition at last annually, (2) the PHA must obtain and document in the tenant file third party verifications. Besides, Code of Federal Regulations 24, Sections 982.158 (d) and 982.405 (b) states that the PHA must prepare a unit inspection report and conduct quality control re-inspection. 24 CFR Subpart A Section 35.88 (2) indicate that the PHA shall disclose to the tenant the presence of any known lead-based paint and/or lead-based paint hazards in the target unit being sold or leased. In addition, 24 CFR Part 908 states the PHA is required to submit the Form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexaminations, interim reexamination, portability move-in or other change of unit for a family.

Cause of Condition The Program officers did not obtained and completed the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.

Effect of Condition The Program does not meet all requirements in compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP Report.

Recommendation The Program should strengthen internal supervisory quality controls in order to ensure performance and compliance of the procedures. Also, have to train the staff on file documentation and verification process.

Questioned Costs None

Management Response and Corrective Action The Program have strengthened internal supervisory quality controls, establishing a procedure of double evaluation of the participant files; by the supervisor and by the Quality Control Unit. Adequate forms and checklists have been implemented to document the evaluation.

Partially corrected

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez, Federal Program Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-11
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Allowable Cost/Cost Principles and Procurement and Suspension and Debarment (B), (I), (MW)
Statement of Condition	In our test of twenty (20) administrative disbursements, we noted the following situation: From January 2010 to February 2010 were ordered and paid services to a contractor for improvements to a building where Section 8 Program has its facilities for \$17,751.23 without getting into a competition process.
Criteria	<p>24 CFR Subpart C, Section 85.36 (a) and (b) States, When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from 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 sub grantees will follow paragraphs (b) through 9 (i) in this section. Procurement standards, (1) Grantees and sub grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurement conform to applicable Federal law and the standards identified in this section.</p> <p>24 CFR Subpart C, Section 85.36 (c), Competition (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 85.36 Some of the situations considered to be restrictive of competition. Grantees and sub grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Allowable cost, Applicable OMB cost principles, agency program regulations, and the terms of grant and sub grant agreements will be followed in determining the reasonableness, allow ability, allowcability of costs. Source documentation, accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and sub grant award documents.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-11 (Continued)
Cause of Condition	The Program did not maintain an effective control over purchase order, contract, and supporting documents of disbursement voucher.
Effect of Condition	The lack of effective internal controls over disbursement and procurement area represent that the Program is not in compliance with laws and regulations concerning disbursements procedures.
Recommendation	The Program should evaluate its internal controls over disbursement and procurement and ascertain that comply with the applicable laws and regulations.
Questioned Costs	\$17,751.23
Management Response and Corrective Action	<p>The Program will evaluate its internal controls over disbursement and procurement to avoid the repetition of the mentioned situation.</p> <p>Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Lcda. Carmen E. Torres Rodríguez, Legal Services Director</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-12
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Financial Reporting (L), (MW)
Statement of Condition	<p>In our test over “Voucher for Payment of Annual Contribution and Operation Statement Report” versus accounting records, we noted that in the period covered from July 1, 2009 to June 30, 2010 the following items reported certain differences:</p> <ul style="list-style-type: none">a) The “Portability In” HAP Voucher Expense, for all months.b) The “Fraud Recovery Amount Booked”, for all months.c) The Administrative Expense, for the months of July 09, August 09, December 09 and March 10 through June 10.d) The HAP Voucher Unit, for the all months.e) The “Portability-In “HAP Voucher Unit, for the months September 09, January 10, February 10 and March 10.
Criteria	<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> <p>Housing Choice Voucher Program Guidebook, Chapter 20 Section 20.12, the purpose of the form HUD-52681 is provides the final calculation of annual contribution for the PHA. The final calculation of annual contribution required is made on this statement, including the determination of actual housing assistance payment, ongoing administrative fees, special fees, audit costs, and if applicable, preliminary fees.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-12 (Continued)**

The final provision (increase or decrease) to the ACC program reserve is also shown on this statement. During the fiscal year the PHA will have requisitioned payments from HUD based upon estimates of subsidy needed and administrative fees earned. The year end settlement process on the HUD-52681 reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and fees earned. The reconciliation may result in either an overpayment do to HUD or an underpayment due to the PHA. Finally, the HUD-52681 presents the operating income, operating expenditures, and operating reserve of PHA for the reporting year.

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

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

Questioned Costs None

Management Response and Corrective Action The Program Supervisor and the Accounting Supervisor have taken the necessary measurements to reconcile in a timely manner the federal funds reports with the accounting records to achieve reliable financial data. Also, the Program supervisor will revise the tasks assigned to the accounting department personnel in order to achieve adequate distribution of tasks and assure the proper preparation of the reports.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-13
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Special Test (N)
Statement of Condition	We noted that the Section 8 Housing Choice Vouchers Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)
Criteria	24 CFR Subpart D, Section 982.156 states. (c) The PHA must enter into an agreement with the depository in the form required by HUD. (d) If required under a written freeze notice from HUD to the depository: (i) The depository may not permit any withdrawal by the PHA of funds held under the depository agreement unless expressly authorized by written notice from HUD to the depository; and (ii) The depository must permit withdrawals of such funds by HUD. (2) HUD must send the PHA a copy of the freeze notice from HUD to the depository.
Cause of Condition	The program is not performing an effective review of compliance requirement that are required by HUD.
Effect of Condition	The PHA is not in compliance with laws and established regulation as prescribed by HUD.
Recommendation	Procedures should be implemented to ascertain that the PHA complies with the established Federal Regulation, as prescribed by HUD.
Questioned Costs	None
Management Response and Corrective Action	The Finance Director of the Municipality will enter into depository agreement with the financial institution using the form required by HUD. (Form HUD-51999)

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant and Mrs. Ramona Pacheco, Finance and Budget Director

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-14
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Special Test (L) (MW)
Statement of Condition	We performed a Reporting Test and we noted the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (August 31, 2010).
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 Program did not maintain adequate accounting records for quickly and promptly prepare financial information to be submitted through the Real Assessment Center (REAC)
Effect of Condition	The PHA did not comply with the OMB No. 2535-0107, 24 CFR section 5.801.
Recommendation	We recommend to the Program'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's accountant will submit as soon as possible the GAAP-based unaudited and audited financial information electronically to HUD.</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>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-15
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>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-15 (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 Program'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 Program will obtain additional support in the MIP implementation through a professional services contract.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-16
Program	Workforce Investment Act (CFDA. No. 17.258-260); U.S. Department of Labor; Pass-through the Human Resources Occupational & Development Council (HRODC)
Requirement	Earmarking – Low-Income Youth – 95% (G)
Statement of Condition	The program did not maintain a list of eligible participants in Youth Activities that must meet the criteria of disadvantaged low-income youth.
Criteria	20 CFR Section 664.220 establishes that up to five percent of youth participants served by youth programs in a local area may be individuals who do not meet the income criterion for eligible youth, provided that they are within one or more of the following categories: (a) School dropout; (b) basic skills deficient, as defined in WIA section 101(4); are one or more grade levels below the grade level appropriate to the individual's ages; pregnant or parenting; possess one or more disabilities, including learning disabilities; homeless or runaway; offender; or face serious barriers to employment as identified by the Local Board (WIA sec. 129 (c) (5).
Cause of Condition	The Program did not maintain appropriate procedures and effective internal control to assure the enrollment process and classification that are stipulated by federal regulation.
Effect of Condition	We can not perform an examination over the eligibility participants criteria of a minimum of 95% disadvantaged low-income youth.
Recommendation	We recommend to the Program should review their procedures for enrollment of the participants according to their income levels and develop policies and procedures to reduce the risk of noncompliance with this requirement.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-16 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Program established the required list of eligible participants in Youth Activities and will identify the participants files according to the eligibility criteria.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Roberto Ramos, Program Director

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-17
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 over twenty-two (22) requisitions of funds and after our procedures we found the following exceptions:</p> <ul style="list-style-type: none">a) The amount of request for funds and supporting documents does not agree. Funding request for \$10,000.64 was not reconciled and corrected in the next request.b) Four (4) requisitions of funds did not include the signature of the Program Officer who verified and approved the request.c) One (1) requisition of funds was not approved by the person authorized in the HHS Payment Management System.d) We could not trace the requisitions to the disbursements in three (3) cases.e) The bank reconciliations, shows average monthly cash balance of \$46,963. The cash balance shows a higher cash balance in the following months:<ul style="list-style-type: none">1) December 2009 \$ 329,0282) November 2009 \$ 82,028
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>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 10-17 (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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-17 (Continued)**

Questioned Costs None

Management Response
And Corrective Action

The Program will strengthen the internal control procedures related to the request of funds in order to assure the adequate documentation of the amounts requested and disbursed, the appropriate segregation of responsibilities related to the fund requests and reduce the average monthly cash balance.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-18
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Expenditures for Goods and Services and Accounts Payable- Purchasing and receiving
Statement of Condition	<p>We performed a cash disbursement test and we select forty-nine (49) disbursement vouchers which belonged to Head Start Program. The following will summarize the internal control exceptions noted:</p> <ol style="list-style-type: none">a. The purchase orders included in seventeen (17) disbursement vouchers of Head Start Program do not include the description of the services or goods ordered. In addition, an internal document is prepared by the program staff; with the specific order to the supplier; the same did not include the responsible officer signature.b. In one (1) disbursement voucher of Head Start Program the receiving report was not available for our examination;c. One (1) disbursement voucher of Head Start Program was not signed by the official payer.d. In two (2) disbursement voucher of Head Start Program, the goods or services were received after the contract and purchase order's deadline.e. Ten (10) disbursement vouchers out of the period of availability of federal funds, were registered in the Head Start Fund as expenditures, but were paid from the Municipality's general fund bank account. New vouchers, even new obligations for the general fund, were not issued to register these payments as expenditures of the general fund. This situation includes twenty-eight disbursement that amounted to \$140,947.45.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 10-18 (Continued)

Criteria Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6) established that “accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

Cause of Condition The Program internal control procedures failed to assure that all transactions were correctly registered and include all the required documentation.

Effect of Condition The Program is not in compliance with the Code of Federal Regulation.

Recommendation We recommend the Program to improve its internal control and procedures in order to assure that all transactions are clerically accurate, and disbursement vouchers contain all the necessary supporting documents before making the payments.

Questioned Costs None

**Management Response
and Corrective Action**

The Program will review the internal control procedures related to purchases and disbursements to assure the compliance with supporting documents requirement and the correction of the transaction amounts. The internal document used to order goods or services to the supplier will be revised to include the responsible officer’s signature.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

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

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-19
Program	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Participants' Eligibility (E)
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 seven (7) 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 one (1) case 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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-19 (Continued)**

Criteria 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 will strengthen the internal control procedures related to the request of funds in order to assure the adequate documentation of the amounts requested and disbursed, the appropriate segregation of responsibilities related to the fund requests and reduce the average monthly cash balance.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

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

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-20
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 a 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 Management is implementing an accounting program (Micro-information Product Non For Profit System- MIP), which contains adequate procedures to maintain separate account for administrative and programmatic expenditures and identify and allocate appropriately such costs.

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-20 (Continued)**

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Narciso Alvarez, Accountant and Mrs. María A. Ruiz, Program Director

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-21
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	<p>Budget obligations are made in order to keep control of the funds available for expending. On our review over the transactions registered until June 30, 2010, we found disbursement vouchers accounted with budget obligations issued in 2007, 2008, and 2009, for services received out of the period of availability of these funds, in some cases. Therefore, the Municipality had to assume the payment for these disbursement vouchers.</p> <p>During our test of over forty-nine (49) disbursement vouchers, we noted that three (3) invoices amounting \$68,086.53 were paid out of the 90 days after the close of the grant award. We did not obtain evidence of Agency waiver to extended deadline.</p>
Criteria	<p>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.</p> <p>A-102 Common Rule, §__.23. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will required payment by the non-Federal entity during the same or a future period.</p>
Cause of Condition	<p>The Program does not have an effective internal control which can demonstrate and monitor all of its outstanding obligations which are settle for payments at the end of the period of availability of the federal grant award.</p> <p>Open obligations are not been cleared at the liquidation date of the program year in order to avoid continue working with no funding obligations, and compromising the budget for the next program year.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-21 (Continued)**

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 obligations incurred in order to comply with the law and regulations in force.

Questioned Cost \$68,086.53

**Management Response
And Corrective Action**

The Program is taking the necessary measurements to assure that the liquidation of obligations comply with the law and regulations in force, including obtaining the required waiver to extended the deadline.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-22
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. Three (3) contracts do not include provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act.b. Five (5) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc.c. Three (3) contracts do not include provision for compliance with Energy Policy, and Conservation Act.d. Three contracts (3) do not include provision for compliance with the Copeland "Anti-kickback".e. Five (5) contracts do not include provision for retention of all required records for three years.f. Three (3) contracts do not include provision for compliance with Executive Order 11246 "Equal Employment Opportunity"g. Three (3) contracts do not include provision for compliance with Davis Bacon Acth. Two (2) contracts do not include provision for compliance with the Clean Air Act and Water Act

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-22 (Continued)**

Criteria

45 CFR Parts 92, Subpart C, Section 92.36, (a), (b) (1), (b) (2), States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section. Procurement standards, grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

45 CFR Part 92, Subpart C, Section 92.36 (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. (1) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions. (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-22 (Continued)
Cause of Condition	The need of integration of the contractual procedures established by the Municipality's 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	<p>The Program Director instructed the employee responsible to prepare the contracts, to review the contract sample according to the federal and state requirements.</p> <p>Still in Process</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mrs. María A. Ruiz, Program Director</p>

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-23
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Accounting Records (L) (MW)
Condition	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.
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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-23 (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	<p>The Program Management is implementing an accounting program (Micro information Product Non For Profit System- MIP), which will serve as useful tool to budget control and to maintain adequate accounting records to assure a fairly presentation of the program position and its results of operations.</p> <p>Still in process</p> <p>Implementation Date: During current budgetary year</p> <p>Responsible Person: Mr. José Dávila Accounting Supervisor and Mrs. María A. Ruiz Program Director</p>

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-24
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Reporting - Financial Administration (L) (MW)
Statement of Condition	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records.
Criteria	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.
Cause of Condition	Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.
Effect of Condition	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
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 most assures 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-24 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

As indicate in the finding 2010-24 , the Program Management is implementing an accounting program (Micro information Product Non For Profit System- MIP), which will serve as useful tool to budget control and to maintain adequate accounting records to assure a fairly presentation of the program position and its results of operations.

Still in process

Implementation Date: During Current Budgetary Year 2011-2012

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-25
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Cash Management (C)
Statement of Condition	During our cash management test, we noted the following situations: <ul style="list-style-type: none">a. Five (5) disbursements were made without the Payment Request completed in all of its parts. The Program authorized the payments before cash availability creating an overdraft in the bank account.b. The program maintains prior years' balances that have not been used.c. The program maintained an average monthly cash balance of \$51,893.25 during the fiscal year 2009-2010.
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.</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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-25 (Continued)
Cause of Condition	The program did not follow the internal control procedures established for the disbursements. Also, the Program'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	<p>The Program Director have taken the necessary actions to achieve the disbursement of funds within the time constraints imposed by the federal requirement and avoid holding excessive cash balance in bank account. The bank account will be evaluated to determine possible funds requested in excess to the necessities of the program.</p> <p>Partially Corrected</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mrs. María M. Rivera Program Director Mrs. Miriam Blanco, Administrative Assistant</p>

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-26**

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). Also, in the “WICY Expenditure Narrative”, the management used the incorrect Part A% for children population and only reported the women expenditures instead of the total WICY population.

FY 09 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (before audit)

Population	Part A%	CDC%	Differences
Women	27.50%	29.80 %	(2.38)
Children	0.06%	0.55%	(0.49)
Youth	4.00%	3.85%	0.15

FY 09 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (after audit)

Population	Part A%	CDC%	Differences
Women	27.69%	29.80 %	(2.19)
Children	0.05%	0.55%	(0.50)
Youth	4.15%	3.85%	.30

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 (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, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-26 (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 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	<p>The Program Director will take the necessary measurements to exercise greater control over the agencies and service providers to ensure that all submit the required reports. The Program will strengthen the internal control procedures to avoid the mentioned differences between expenditures reported in the WICY expenditures worksheet and accounting records.</p> <p>Partially Corrected</p> <p>Implementation Date: During Fiscal Year 2009-2010</p> <p>Responsible Person: Mrs. María M. Rivera, Program Director</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-27
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	The Program acquired a Peachtree Software, which will serve as 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.

Implementation Date: During Fiscal Year 2010-2011

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

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

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	10-28
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Reporting - Financial Administration (L)
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 WICY Expenditure Worksheet and Narrative Report. As result, the financial reports do not agree with the program accounting records.</p>
Criteria	<p>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.</p>
Cause of Condition	<p>The Program has not established adequate internal control procedures to assure the correctness of the reports.</p>
Effect of Condition	<p>The Program did not comply with 24 CFR Section 92.20 (b) (1).</p>
Recommendation	<p>We recommend that the Program 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 sub recipients and Care ware consultants in order to obtain documental evidence related the expenditures and percentages for women, infants, child and youth population. The program shall keep this information available for audits.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **10-28 (Continued)**

Questioned Costs None

**Management Response
and Corrective Action**

With the acquisition of the Peachtree Software mentioned in finding number 28, the Program will count with an adequate set of accounting records that present the financial position of the program and the results of its operations, and will avoid the mentioned deficiencies.

Partially Corrected

Implementation Date: During Fiscal Year 2010-2011

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

**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, 2009 – June 30, 2010

Fiscal Year: 2009-2010

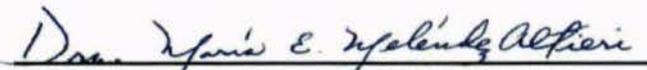
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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
			4. A provision for deficit reserve of \$100,000 was included in the municipal budget of the fiscal year 2010-2011.		
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.			Not resolved yet. See finding number 2010-01. Note: The operating deficit of general fund area included the finding 2010-01, but the situation mentioned in such finding is different to those mentioned in the finding 2009-01, and 2008-01.
2009-02 (FS)	FINANCIAL REPORTING – ACCOUNTING RECORDS (MW)	During our examination of the Municipality's accounting system, we noted that the computerized accounting system does not	On March 23 2011, the Finance Director designated a special committee to evaluate the information system		Not resolved yet. See current year finding number

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2011

Date

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

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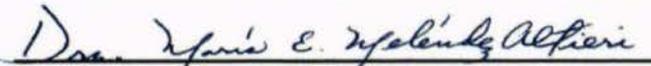
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		provide for adequate and effective financial information. As a consequence, the Finance and Budget Department personnel use, spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.	(SIGMA). The committee will evaluate the mentioned deficiencies and will submit a written report containing recommendations to improve, update or replace the information system. The special committee is integrated by the Accounting Supervisor, the Director of the Information and Technology Department and the Municipal Officials responsible to prepare the financial statements.		2010-02
2008-02 (FS)	FINANCIAL REPORTING ACCOUNTING RECORDS (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 miscalculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software.			Not resolved yet. See finding number 2010-02

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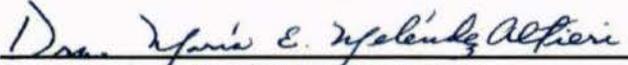
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2009-03 (FS)	MUNICIPAL LICENSE TAX REVENUES (MW)	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.	With the adoption of the corrective actions mentioned in the finding 2009-01 and the preparation of cash flow forecasts and projections to anticipate cash flow shortage, the Municipality expects to avoid in future years the use of the licenses tax revenue collection in advance to cover operating costs and cash flows shortages of the current fiscal year.		Not resolved yet. See current finding number 2010-03
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 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, 2008. Those unearned revenues collected in advance			Not resolved yet. See finding number 2010-03

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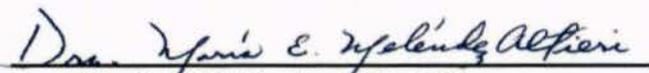
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		pertain to the general fund's operating budget of the fiscal year 2008-2009, could not be used to pay obligations of the fiscal year 2007-2008 and was not authorized by a municipal ordinance or resolution.			
2009-04 (FS)	HEAD START PROGRAM (MW)	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.	The Head Start Program Loan Debt mentioned in this finding is being repaid in a timely manner. On 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 on November 2009. Since the period November 2009 through January 2011, the Municipality has paid \$171,640.65 corresponding to the fifteen (15) expired installments.		Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.
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			Full corrective action has been taken. This finding was not

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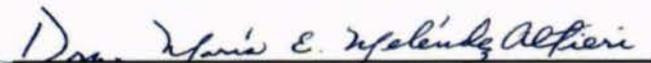
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		disallowable costs incurred. As of the report date, this amount has increased to approximately \$780,000. According to the federal agency, the funds must be from non-federal sources.			repeated in fiscal year 2008-2009. Note: The Head Start area included the finding 2009-04, but the situation mentioned in such finding is different to those mentioned in the finding 2008-04.
2009-05 (FA) Cash Management (C) (MW)	HEAD START (CFDA No. 93.600)	We performed the Cash Management test and after our procedures we found the following exceptions: 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			Not resolved yet. See current year finding number 2010-17

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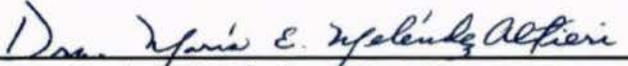
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status												
		<p>include the signature of the Program Officer who verified and approved the request.</p> <p>c. Ten (10) requisitions of funds were not approved by the person authorized in the HHS Payment Management System.</p> <p>d. The bank reconciliations, shows average monthly cash balance of \$25,500. The cash balance shows a higher cash balance in the following months:</p> <table border="0"> <tr> <td>1. July 2008</td> <td>\$47,317</td> </tr> <tr> <td>2. August 2008</td> <td>43,438</td> </tr> <tr> <td>3. September 2008</td> <td>43,438</td> </tr> <tr> <td>4. November 2008</td> <td>37,799</td> </tr> <tr> <td>5. May 2008</td> <td>40,224</td> </tr> <tr> <td>6. June 2009</td> <td>40,948</td> </tr> </table>	1. July 2008	\$47,317	2. August 2008	43,438	3. September 2008	43,438	4. November 2008	37,799	5. May 2008	40,224	6. June 2009	40,948			
1. July 2008	\$47,317																
2. August 2008	43,438																
3. September 2008	43,438																
4. November 2008	37,799																
5. May 2008	40,224																
6. June 2009	40,948																
2008-01 (FA) - Allowable Costs/ Cost Principles (B)	HEAD START (CFDA No. 93.600)	We have performed audit procedures to forty (40) vouchers and six (6) payroll disbursements and noted the following exceptions:		\$50.00	Full corrective action has been taken. This finding was not												

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
(MW)		<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 was no allowed. 3. In two (2) payments of payroll, we noted that the Program will pay the employee less than the amount indicated. The employees worked all labored hours and the program 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. 			repeated in fiscal years 2008-2009 and 2009-2010.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		4. In nine (9) vouchers the concept of payment indicating in the disbursement is incorrect.			
2008-02 (FA) Cash Management (C) (MW)	HEAD START (CFDA No. 93.600)	In our drawdown test over forty two (42) disbursements, we noted the following exceptions: 1. Two (2) checks do not appear in the register control check that is where the Program specifies the date on which they are mail, the date, and signature of the person who collected it in person. 2. One (1) check prepared without evidence of pickup or mail date by the supplier which avoid corroborates time elapsing payment procedures; according of this we couldn't evaluate the cash management compliance requirement. 3. One (1) check was delivered to the supplier or participant more than three (3) days of the next workday after the funds were deposit in the bank account.	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 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		Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009 and 2009-2010. Note: The cash management area included the findings 2009-05 and 2010-17, but the situation mentioned in such findings is different to those mentioned in the finding 2008-02.

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Dra. María E. Meléndez Altieri
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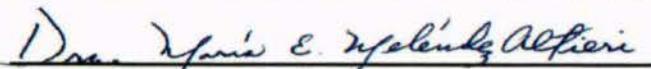
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		<p>4. Five (5) cash requests did not include the signature of the Officer Program who prepares the request.</p> <p>5. Twenty (20) cash requests did not include the signature of the Officer Program who verifies the request.</p> <p>6. In the following request for funding, the Program requests the incorrect amount. The amount of the requests for funding and supporting documents does not agree. The Program requests more funds that the immediately need:</p> <ul style="list-style-type: none"> - Cash request on October 9, 2007 for \$316,408.51, the correct amount was for \$310,408.52. Funding request for \$6,000.00 was not reconciled and or corrected in the next request. - Cash request on July 20, 2007 for \$53,234.09, was duplicated, because had been requested in the cash request made on June 28, 2007 for \$105,716.28. Funding 	<p>conditions.</p>		

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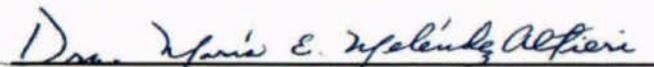
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		<p>request in excess for \$53,234.09 was not reconciled and or corrected in the next request.</p> <ul style="list-style-type: none"> - Cash request on June 16, 2008 for \$48,934.73 and the correct amount was for \$23,194.73. Funding request in excess for \$25,740.00 was reconciled in the next requests. - Cash request on June 9, 2008 for \$160,566.17, the correct amount is \$157,336.17. Funding request in excess for \$3,230.00 was reconciled in the next requests. <p>7. During our audit of program bank reconciliations account number 071-036938, we noted that the cash balance shown higher average monthly cash balance over \$47,400, as follows:</p> <ul style="list-style-type: none"> - July 2007 - \$54,133.01 - September 2007 \$48,291.53 - October 2007 - \$60,262.09 - November 2007 \$57,103.73 			

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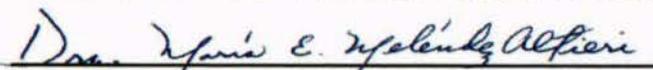
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		<ul style="list-style-type: none"> - January 2008 - \$55,346.94 - April 2008 - \$283,889.49 - May 2008 - \$49,495.61 <p>8. During our audit of program ban reconciliations account number 071-036938, we noted differences between the book balance and bank reconciliation in the following months:</p> <ul style="list-style-type: none"> - May 2008 - June 2008 			
2008-03 (FA) Davis Bacon Act (D) (MW)	HEAD START (CFDA No. 93.600)	<p>We evaluated the only contract of construction that was in force during the fiscal year 2007-2008, and noted the following:</p> <ol style="list-style-type: none"> 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. 	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 2010, this is a compliance requirement for Head Start Program, but is applicable to construction or major

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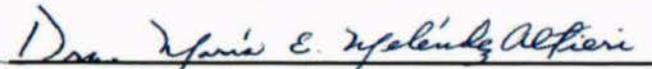
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		3. Contract without evidence of the Payment of Prevailing Wages Table.			renovations. During the current year the renovations 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. 5. Eight (8) files examined did not include evidence of the pay stub that certifies 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 years 2008-2009 and 2009-2010. See findings number 2009-06 and 2010-19

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		<p>6. Ten (10) files examined did not include evidence of Certification of Income Tax Return for the last five years.</p> <p>7. Five (5) files examined did not include evidence of Family Department Certification (PAN).</p> <p>8. Eight (8) files examined did not include evidence of Certification of Child Support (ASUME).</p> <p>9. Fifteen (15) files examined did not include evidence of Department of Labor Certification.</p> <p>10. Six (6) files examined did not 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>			

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		<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 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</p>			

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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>needs.</p> <p>20. One (1) file examined did not include evidence of Physical Examination that applies to the fiscal year audited.</p> <p>21. In one (1) file examined the physical examination was 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) file 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

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

March 31, 2011

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, 2009 – June 30, 2010

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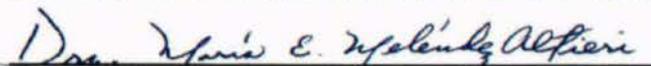
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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		26. Two (2) files examined had evidence of only two Curriculum Creative Progress Report. 27. In one (1) file examined the curriculum creative progress report no has evidence of the signature of the teacher. 28. In one (1) file examined the curriculum creative progress report no has evidence of the family signature. 29. Two (2) files examined did not have evidence of Home Visit. 30. Three (3) files examined had evidence of only one Home Visit.			
2009-06 (FA) Participants' Eligibility (E) (MW)	HEAD START (CFDA No. 93.600)	We have performed an Eligibility test to forty (40) participants' files and noted the following exceptions: 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.	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		Not resolved yet. See current year finding number 2010-19

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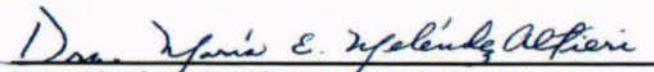
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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		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.	to assure that necessary information is included and documented.		
2009-07 (FA) Equipment and Real Management (F) (MW)	HEAD START (CFDA No. 93.600)	We performed audit procedures over 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.			Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.
2008-05 (FA) Equipment and Real Management (F) (MW)	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 examined the property subsidiary ledger and the internal control of property, plan, and equipment and noted the following: 1. One (1) equipment examined was not	The equipment mentioned in the item one (1) already was recorded in the subsidiary property ledger with the property ledger with the property number HST 014526. Since February 2009, an internal control was established to require to		Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.

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**COMMONWEALTH OF PUERTO RICO
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>recorded in the subsidiary property ledger.</p> <p>2. One (1) disbursement did not have evidence of when the Program receipts the merchandise.</p> <p>3. Three (3) equipments examined, the subsidiary property ledger did not indicate the serial number.</p> <p>4. One (1) equipment examined, the subsidiary property ledger does not indicate the condition and use of equipment.</p> <p>5. Three (3) equipments examined physically did not have evidence of the tag number.</p> <p>6. We performed audit procedures to twenty (20) equipments or material (less than \$5,000) of the centers and we noted the following:</p> <p>7. Two (2) equipments examined physically did not appear registered in the subsidiary property ledger.</p>	<p>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 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>		

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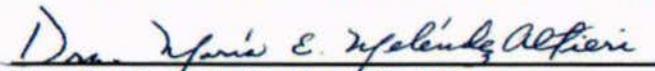
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-06 (FA) Matching (G) (MW)	HEAD START (CFDA No. 93.600)	<p>a. We chose two months to evaluate the supporting documents for cash or in-kind local contributions and noted the following:</p> <ol style="list-style-type: none"> 1. In all samples observed differences between the documents to support the volunteer work and the amount recorded in the general ledger. 2. In all samples observed differences between the documents to support the other expenses and the amount recorded in the general ledger <p>b. 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>c. 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>d. The Municipality did not comply with the</p>			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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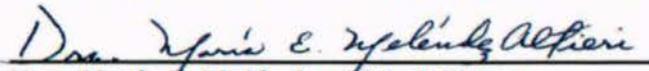
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		20% local contribution (In-Kind or Cash) at June 30, 2008, were uncovered matching of \$154,523.11. The Program reported 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.			
2008-07 (FA) Earmarking (G) (MW)	HEAD START (CFDA No. 93.600)	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. In nineteen (19) centers examined, the monthly	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.		Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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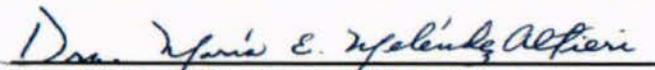
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		average daily attendance rate was below 85%. This situation has the effect of decreasing the Head Start funds for meal payments.			
2009-08 (FA) Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)	HEAD START (CFDA No. 93.600)	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.			Not resolved yet. See current year finding number 2010-20
2009-09 (FA) Period of Availability of Federal Funds (H) (MW)	HEAD START (CFDA No. 93.600)	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.	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		Not resolved yet. See current finding number 2010-21

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

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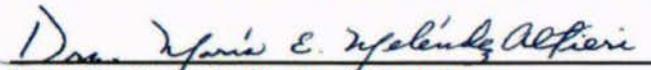
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			improve our internal control procedures over the liquidation of the accounts payables.		
2008-08 (FA) Period of 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 findings number 2009-09 and 2010-21
2009-10 (FA) Procurement and Suspension and Debarment (I) (MW)	HEAD START (CFDA No. 93.600)	We have performed audit procedures to ten (10) contracts and noted the following exceptions: 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	The Program Director will establish adequate coordination with the Municipal Legal Services Office in order to assure that all contracts contain the required provisions and certifications.		Not resolved yet. See current year finding number 2010-22

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March 31, 2011

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

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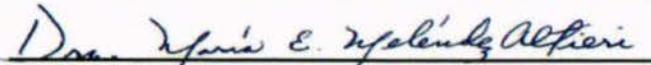
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		<p>for termination by grantee for default.</p> <p>c. Two (2) contracts do not include provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act.</p> <p>d. Two (2) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc.</p> <p>e. Two (2) contracts do not include provision for compliance with Energy Policy, and Conservation Act.</p> <p>f. Two contracts (2) do not include provision for compliance with the Copeland "Anti-kickback".</p> <p>g. Two (2) contracts do not include provision for retention of all required records for three years.</p>			
2008-09 (FA) Procurement and	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:	For all process involving contracts: From August 2009 on, all employees related with contracts, will be trained to prepare,		Partially resolved, but some items of

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

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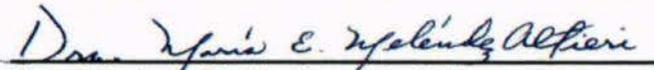
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Suspension and Debarment (I) (MW)		<ol style="list-style-type: none"> 1. One (1) contract does not indicate the date of signature. 2. Three (3) contracts without evidence of Department of Treasury Debt Certification. 3. Two (2) 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. 8. Four (4) contracts without evidence of the Policy of the State Insurance Funds. 	check and comply with all requirements, as federal and state laws require.		this finding were repeated in fiscal years 2008-2009 and 2009-2010. See findings number 2009-10 and 2010-22

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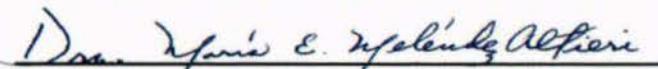
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		9. Six (6) contracts without evidence of Certification of Good Standing. 10. Six (6) contracts and twelve (12) purchase orders examined without evidence of verified in the Excluded Parties List. 11. Five (5) contracts and seven (7) purchase orders examined did not include evidence of Competitive process (Bid, Proposal or Quotation). 12. Four (4) contracts without clause of Child Support. 13. Five (5) contracts without clause of No Discrimination. 14. Ten (10) contracts without clause of Debarment and Suspension. 15. Two (2) contracts without clause of Provision for Termination by grantees for default. 16. Four (4) contracts without clause of			

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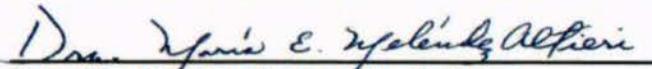
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		Granting Access GAO or other federal agency to books, documents, paper, and records. 17. Five (5) contracts without clause of retention of all required records for three years after grantees or sub grantees make final payments and all other pending matters are closed.			
2009-12 (FA) Reporting (L) (MW)	HEAD START (CFDA No. 93.600)	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. 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.	The Program acquired 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.		Not resolved yet. See current finding number 2010-24

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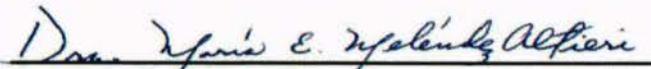
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2008-10 (FA) Reporting (L) (MW)	HEAD START (CFDA No. 93.600)	<p>During the evaluation of the Financial Status Report (FSR-269) funding grant period ended December 31, 2007 and submitted in June 3, 2008, we noted the following:</p> <ol style="list-style-type: none"> 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. 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 obligations made on or before December 31, 2007 and belong to an expense of the budget year 2007. 	<p>From now on, accounting employees will prepare 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>		Not resolved yet. See findings number 2009-12 and 2010-24

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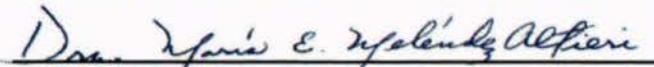
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2009-11 (FA) Accounting records (L) (MW)	HEAD START (CFDA No. 93.600)	During our test over the accounting management system, we detected that the Program is not spending federal funds according to the approved budget, resulting in obligations in excess of the available funds. In addition, The Municipality had to absorb all pending obligations issued in excess of the established budget.	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 acquired 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.		Not resolved yet. See findings number 2009-11 and 2010-23
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: 1. The Program is not spending federal funds according to the approved budget in the proposal. According to the evaluation of the proposal 2008, had a	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 findings number 2009-11 and 2010-23

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

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Audit Period: July 1, 2009 – June 30, 2010

Fiscal Year: 2009-2010

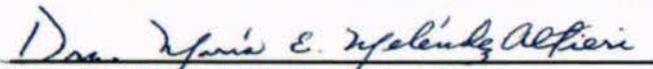
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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
		surplus over the State Insurance Fund by \$164,763. The Program could not evidence that the funds awarded were spent. The Program has no evidence that the federal agency has approved a change in budget. The Municipality has to use the federal funds restricted to the applicable Federal program.			
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 not been paid at the close of the fiscal year audited (June 30, 2008). During the fiscal year audited we noted that The Municipality does not have this debt recorded in its accounting records and according to the Director of the Program these funds will not appear in their cash accounts.			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2011

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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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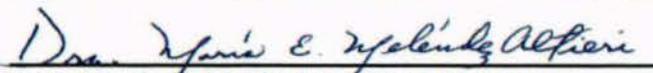
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-13 (FA) Center Licenses, Physical Environmental, Equipment, Material and Facilities (N) (MW)	HEAD START (CFDA No. 93.600)	<p>During our test over four centers, we noted the following exceptions:</p> <ol style="list-style-type: none"> Two (2) centers had expired the Firefighter Certificate. 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. Corral Viejo - Disabled ramp is broken. Classroom door with access to yard is damaged. The bathroom has water pipes exposed to children. The bathroom is dirty. The kitchen walls are dirty and have fungus. The kitchen has excrement of rat in cabinets and everywhere. The kitchen has no heater or water distiller in use. The walls of the center are damaged inside and outside and have fungus. The emergency lights do not work. Dirty areas and parts of the floor is cement. Refrigerator oxidized 			According OMB Circular A-133 Compliance Supplement updated March 2010, this is not a compliance requirement for Head Start Program.

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		<p>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>4. 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 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</p>			

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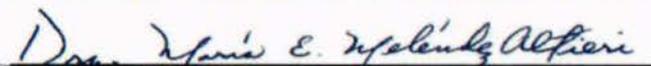
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		and rocks dangerous, and cement fence is broken. The electrical outlets accessible to children did not have resistant covers. In the center "Magueyes 1" the ceiling fan and the closet is dirty and a ceiling lamp is not working. 5. Coto Laurel - The bathrooms did not have handicapped railings. The center did not have disabled ramp at the door accessing the playground. Emergency lights 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 equipment have areas without protection.			
2009-14 (FA) -Cash Management (C) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our cash management test, we noted the following situations: a. Two (2) fund requisitions were made in excess of program needs; b. The program maintains old balances that have not been used;	The Program has 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		Not resolved yet. See current year finding number 2010-25

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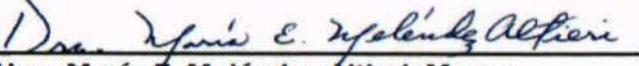
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		c. The program maintained an average monthly cash balance of \$53,510.14 during the fiscal year 2008-2009.	the funds received be disbursed on a reasonable lapse of time. This measurement will contribute to decrease the average monthly cash balance 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.		
2008-14 (FA) -Cash Management (C) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	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. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance by approximately \$25,000.	The Program has established the corrective actions to prevent this situation in the near future.		Not resolved yet. See findings number 2009-14 and 2010-25

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2008-15 (FA)- Eligibility (E) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	In our test of seven (7) Eligibility agencies, we noted the following exceptions: 1. For two service providers, The Municipality did not request the complete Single Audit report which included the - Internal Control over Compliance in Accordance with OMB Circular A- 133" report with their respective findings. 2. One service provider did not submit the professional certifications of personnel who provided direct services to patients. 3. For one service provider, The Municipality did not request the audit of financial statements and compliance under OMB Circular A-133 audited although this provider expend more than \$500,000 in federal awards.		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
2009-15 (FA) - Earmarking - Administrati- ve Cost limits	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	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			Full corrective action has been taken. This finding was not repeated in fiscal

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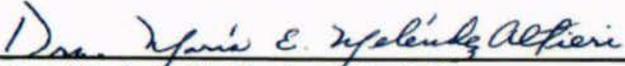
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
(G)		compliance with the ten (10%) administrative costs limit.			year 2009-2010.
2009-16 (FA) - Matching, Level of Effort, Earmarking (G) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	<p>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.</p> <p>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.</p>	<p>The differences mentioned in this finding occurred due to the wrong use of data in the CareWare Program.</p> <p>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.</p>	None	Not resolved yet. See current finding number 2010-26
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 the	None	Not resolved yet. See findings number 2009-16 and 2010-26

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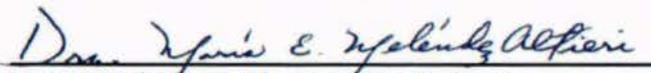
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			WICY report. The internal procedure to prepare the mentioned reports will be revised to eliminate of possibility of errors in such reports.		
2009-18 (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.		None	Not resolved yet. See current years finding number 2010-27
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 findings number 2009-18 and 2010-27
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		None	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009. The procurement

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		management request to Provider Agencies compliance with contract clause regarding submission of quarterly expenditures reports and close out report 30 days after end of award period.			procedures area included the finding 2009-19, but the situation mentioned is such finding is different to those mentioned in such finding. The situation mentioned in the finding 2009-19 was not repeated in fiscal year 2009-2010.
2009-19 (FA) - Procurement and Suspension and Debarment (I)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our procurement contract provisions test of four (4) professional contracts, we found the following exceptions: a. One (1) contract did not include provision for retention of all required records for three years.	The Program Director took appropriate corrective action measurements to ensure that all contracts include the provisions required by Federal and State regulations, including those mentioned in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.

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		b. Four (4) contracts did not include provision for compliance with the Bird-Anti-Lobbying Certification.			
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 year 2008-2009. Note: The reporting area included the finding 2009-20, but the situation mentioned is such finding is different to those mentioned in current year finding.
2009-20 (FA)	HIV EMERGENCY RELIEF	During our audit, we noted that the Program did	During the current fiscal year, the	None	Not resolved yet.

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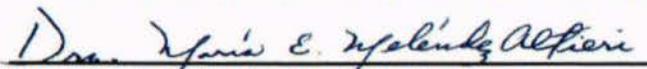
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Reporting - Financial Administration	PROJECT GRANT (CFDA No. 93.914)	not maintain an adequate set of accounting records that present the financial position of the program and results of its operations. 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.	Program acquired 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).		See current years finding number 2010-28
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.
2009-17 (FA) - Sub-Recipient Monitoring (H) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	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.	The Program Monitor prepared a Monitoring Plan for the programmatic sub-recipients activities corresponding to the year 2010-2011. The Program Monitor took a training with other municipal Monitor about the monitoring procedures, the preparation of Monitoring Programs and worksheets		Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.

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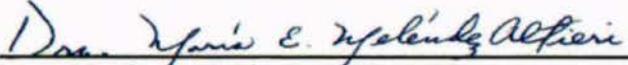
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			and other related subjects.		
2009-21 (FA) - Allowable Cost - Cost Principles (B)	WORKFORCE INVESTMENT ACT (CFDA NO. 17.258-260)	During our disbursement test, we verified forty (40) disbursement vouchers related to program expenditures during the fiscal year 2008-2009. The following summarizes the situations found: 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.	The Program Monitor prepared a Monitoring Plan for the programmatic sub-recipients activities corresponding to the year 2010-2011. The Program Monitor took training with other municipal Monitor about the monitoring procedures, the preparation of Monitoring Programs and worksheets and other related subjects.		Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.
2009-24 (FA) Cash Management	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT	During our audit of the program's bank reconciliations, we noted that the cash balance shown a higher average monthly cash balance	As part of our corrective action plan, we will instruct Program accounting staff, in order to strengthen control and		Full corrective action has been taken. This

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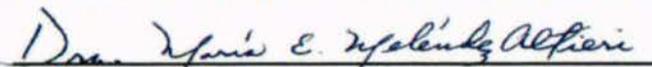
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(C)	(CFDA No. 14.218)	by approximately \$27,000 in the following months; August 2008, November 2008, December 2008 and March 2009.	procedures to assure that the conditions observed by the auditors does not occur again.		finding was not repeated in fiscal year 2009-2010.
2008-21 (FA) - Cash Management (C) (MW)	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)	In our drawdown test over eighteen (18) cash funds requested, we noted the following exceptions: 1. Two (2) checks prepared without evidence of pickup or mail date by the supplier which avoid corroborate time elapsing payment procedures; according of these we couldn't evaluate the cash management compliance requirement. 2. One (1) check was submitted to the supplier more than five (5) days of the next workday after the funds were deposited in the bank account. 3. During our audit of 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:			Partial corrective action has been taken. Items (1) and (2) were not repeated in fiscal year 2009-2010. See finding number 2009-24.

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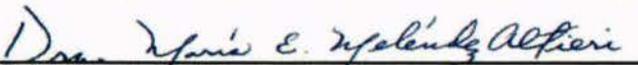
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		<ul style="list-style-type: none"> - September 2007 - February 2008 - March 2008 - April 2008 - May 2008 			
2008-22 (FA) Equipment and Real Property Management (F)	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)	<p>We performed audit 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 years 2008-2009 and 2009-2010.
2008-23 (FA) - Procurement and Suspension and Debarment (I) (MW)	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)	<p>In seven (7) contracts procurement process we tested the compliance and internal control and found the following exceptions:</p> <ol style="list-style-type: none"> 1. One (1) contract without evidence of Certificate of Incorporation. 2. Two (2) contracts without evidence of 			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2011

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, 2009 – June 30, 2010

Fiscal Year: 2009-2010

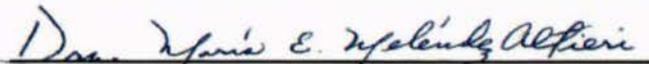
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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
		9. One (1) contract without clause of Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.			
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: 1. In one (1) monitoring, we noted that the cash disbursement test was not performed, therefore the auditor does not evaluated whether the cost of the disbursement were allowed. 2. In one (1) monitoring, we noted that The Municipality did not request the audit of financial statement and compliance under OMB Circular A-133.			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
2008-25 (FA) Allowable Costs/ Cost Principles (B)	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			Full corrective action has been taken. This finding was not

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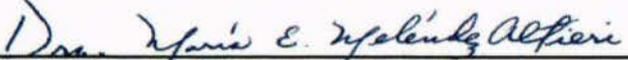
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
(MW)		<p>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</p>			repeated in fiscal years 2008-2009 and 2009-2010.
2008-26 (FA) Cash Management (C) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	<p>In our drawdown test over forty (40) disbursements, we noted the following exceptions:</p> <ol style="list-style-type: none"> 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. 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. 			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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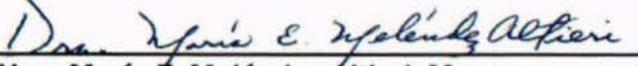
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>3. During our audit of programs' bank reconciliations, we noted that the cash balance shown higher average monthly cash balance over \$9,500, as follows:</p> <ul style="list-style-type: none"> - 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>1. Contract without contract provision for Payment of Prevailing Wages.</p>			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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		2. One (1) payroll certification without evidence that was monitored and evaluated by the payment official examiner. 3. All certification were evaluated on February 8, 2008 by the Official Program as all the certificates were delivered by the contractor on February 6, 2008. The contractor completed the construction and then request for all payments. The project was never inspected by inspectors of the Program. The payments were for \$199,000. 4. The Municipality did not perform a monitoring process in the project as stated in the contract clause. 5. All payroll certification do not include the contract number or project number.			
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: 1. Four (4) files examined did not include evidence of income (Certificate of			Full corrective action has been taken. This finding was not repeated in

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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
		<p>employment or Copy of last two pay stubs).</p> <p>2. Four (4) files examined did not include evidence of ASUME Certification.</p> <p>3. Five (5) files examined did not include evidence of Department of Labor Certification.</p> <p>4. Seven (7) files examined did not have evidence for the verification of assets.</p> <p>5. Three (3) files examined did not include evidence of Department of Treasury Debt Certification.</p> <p>6. One (1) file examined did not include Certification of CRIM.</p> <p>7. In one (1) file examined, we noted that funds were awarded to a participant whose acquisition costs exceed the cost allowed. 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</p>			<p>fiscal years 2008-2009 and 2009-2010.</p>

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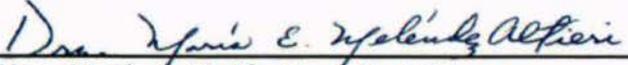
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		<p>purchased with funds from the CDBG Program but the disbursement is funded by the HOME Program and is being used to benefit the HOME Program.</p> <p>3. In the entire sample we observed that the subsidiary property ledger does not indicate the condition of the equipment and percentage of federal participation in the cost.</p> <p>4. We noted that the number of tag that is physically in the equipment not correspond for the HOME Program.</p>			
2008-30 (FA) Procurement and Suspension and Debarment (I) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No. 14.239)	<p>In three (3) contracts procurement process and four (4) purchases order, we tested the compliance and internal control and found the following exceptions:</p> <p>1. One (1) contract agreement did not include the effective signature date.</p> <p>2. One (1) contract without evidence of the Policy of the State Insurance Funds.</p>			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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		3. Three (3) contracts without evidence of Certification of Good Standing. 4. One (1) contract without evidence of Certification of Law and Code Contractor and Anticorruption Procedures. 5. Two (2) contracts without evidence of Verification of Employment and Human Resources Debt. 6. One (1) contract without evidence of Payment and Performance Bond and Bid Bond. 7. One (1) contract agreement without clause of Lead Based Paint. 8. One (1) contract agreement without clause of Patent write and copyright. Four (4) purchases order supporting documents did not include evidence of competition process.			
2008-31 (FA)	HOME INVESTMENT	We evaluate the list of contract that were			Full corrective

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

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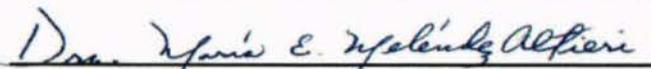
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Accounting Records (L) (MW)	PARTNERSHIP PROGRAM (CFDA No. 14.239)	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.			action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
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: 1. In one (1) monitoring, we noted that the audit documents are incomplete and does not include some findings presented by monitoring report.			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
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 years

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

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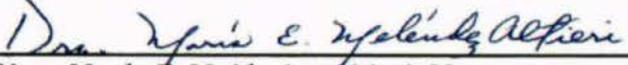
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					2008-2009 and 2009-2010.
2008-34 (FA) Disbursement Voucher Process (B) (I) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We evaluated twenty-three (23) administrative disbursements and noted the following: 1. One (1) voucher of payment did not have evidence of the signing of the account payable official. 2. Two (2) purchases order supporting documents did not include evidence of Competition process. 3. Three (3) contract agreements did not include the effective signature date.			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009. Finding reissued for different situation. 2010-11.
2008-35 (FA) Cash Management (C) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	1. During our audit of programs' bank reconciliation account number 0101 1030000030 of Section 8 Voucher, we noted that the cash balance shown higher average monthly balance over \$2,950,000. This situation presents potential for excessive federal cash on hand.			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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		2. During the evaluation of the bank reconciliations, we noted that several checks outstanding for more than six months and more than a year. In several months we see that the canceled checks that are forfeited by their life belong to the same person or entity. The Program does not have a monitor over outstanding checks for more than six months.			Finding reissued in current year for different situations as finding 2010-09.
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: 1. Six (6) files examined did not comply with the timing requirement to initiate the reexamination verification process. 2. Four (4) files examined did not include evidence of income. 3. Two (2) files examined did not include evidence of Family Department Certification (PAN).			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009. Finding reissued in current year. 2010-10.

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		<p>12. Six (6) files examined did not include evidence of Good Behavior Certification for all family members of 18 years old and up.</p> <p>13. Six (6) files examined did not include evidence of Drug Free Certification.</p> <p>14. Three (3) files examined did not include HAP Contract or Amendment that applied to the fiscal year audited.</p> <p>15. One (1) file examined did not include evidence of the Lease of Voucher Tenancy.</p> <p>16. Ten (10) files examined did not include evidence of utilities invoice and the tenants have utilities allowance.</p> <p>17. Three (3) files examined have the utilities allowance calculated incorrectly in the contract amendment.</p> <p>18. In twelve (12) files examined, we noted that the contracts were signed long after the effective date that indicates the annual reexamination (Form 50058) and the</p>			

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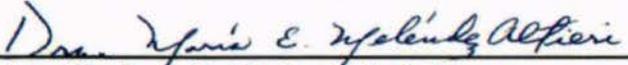
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		<p>effective date of the contract; therefore payments were processed without the contract being completed.</p> <p>19. Four (4) contracts or amendments did not indicate the utilities allowance however the Program is given subsidy to the tenant.</p> <p>20. In one (1) file examined the contract does not indicate the negative rent applied according to the Family Report 50058.</p> <p>21. Two (2) files examined did not include evidence of Marriage or Divorce Certification.</p> <p>22. Three (3) files examined did not include evidence of Sworn Statement that identified the Social Status, Income and Property.</p> <p>23. Three (3) files examined did not include evidence of family member's Birth Certification.</p> <p>24. Two (2) files examined did not include evidence of Certificate of Study Children.</p> <p>25. Six (6) files examined did not include</p>			

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		<p>evidence of Department of Labor Certification for all members of 18 years old and up.</p> <p>26. Eight (8) files examined did not include evidence of Department of Treasury Debt Certification.</p> <p>27. Six (6) files examined did not include evidence of Certification of Movable and Immovable Property (CRIM).</p> <p>28. Eight (8) files examined did not include evidence of Certification of Income Tax Return for the last five years.</p> <p>29. Six (6) files examined did not include evidence of Credit Information Authorization.</p> <p>30. Two (2) files examined did not include evidence of Family Photo.</p>			
2008-37 (FA) Financial Reporting (L)	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			Full corrective action has been taken. This

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(MW)		<p>following:</p> <ol style="list-style-type: none"> 1. In the period covered from July 1, 2007 to September 30, 2007 the following items reported certain differences: <ol style="list-style-type: none"> a. The HAP Voucher Unit b. The "Portability-In" HAP Voucher Unit, for the month of July 2007 c. The "Portability In" HAP Voucher Expense d. The Administrative Expenses 2. In the period covered from October 1, 2007 to December 31 2007 the following items reported certain differences: <ol style="list-style-type: none"> a. The "Portability Out" HAP Voucher Unit, for the month of December 2007 b. The HAP Voucher Unit c. The "Portability Out" HAP Voucher Expense, for the month of December 2007 d. The "Fraud Recovery Amount Booked", for the month of November 2007 e. The "Portability In" HAP Voucher Expense, for the month of December 			<p>finding was not repeated in fiscal year 2008-2009. Note: The financial reporting area includes the finding 2009-22, but the situation mentioned in such finding is different to those mentioned in current year finding. 2010-12.</p>

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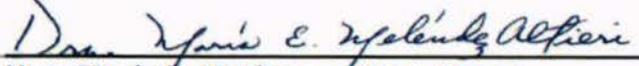
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		<p align="center">2007</p> <p>3. In the period covered from April 1, 2008 to June 30, 2008 the following items reported certain differences:</p> <ul style="list-style-type: none"> a. The HAP Voucher Unit b. The HAP Voucher Expense c. The HAP Voucher Expense after the first day of the month, for the month of May 2008 d. The "Portability-In" HAP Voucher Unit, for the month of May 2008 e. The "Portability-In" HAP Voucher Expense f. The Administrative Expense for the months of April 2008 and May 2008 			
2009-22 (FA) Financial Reporting - Accounting Records (L) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	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.	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.		Not resolved yet. See current years finding number 2010-12

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March 31, 2011

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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, 2009 - June 30, 2010

Fiscal Year: 2009-2010

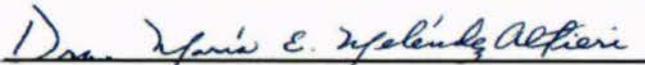
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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.	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.		
2009-23 (FA) Reporting (L) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	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.	The Program Accountant in coordination with the predecessor auditor prepared and submitted electronically to HUD the required unaudited and audited financial information, during April 2010.		Full corrective action has been taken. This finding was not repeated in fiscal year 2009-2010.
2009-25 - Reporting (L)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA NO. 14.239); U.S. Department of Housing	In our Reporting Test, we noted following: a. There is a difference of \$786,614 between the IDIS Report (CO4PR27) and the programs' accounting records. As of	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		Not resolved yet. See current years finding number 2010-09

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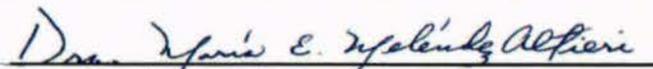
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
	and Urban Development	June 30, 2009, the amount disbursed per IDIS was \$9,420, 829 versus \$10,207,443 per accounting records. The differences arise from grants from the 2000 through 2008 program years.	the Federal requirements.		
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: a. Three (3) files examined have incorrect the item 5i "Date of Last Annual HQS inspection" in HUD's Form 50058. b. One (1) file examined have incorrect the item 5h "Date of Unit Last Passed HQS Inspection" in HUD's Form 50058. c. 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 years 2008-2009 and 2009-2010.
2008-39 (FA)	SECTION 8 HOUSING	According to our audit test, we found that the			Full corrective

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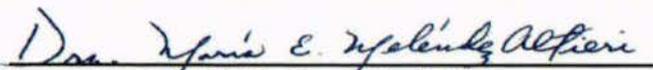
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Performance Reporting	CHOICE VOUCHER (CFDA No. 14.871)	following indicators are reported incorrectly in the SEMAP Report (Certification HUD-52648): a. Indicator (2b) Reasonable Rent b. Indicator (5) HQS Quality Control Inspection c. Indicator (6) HQS Enforcement			action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
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: a. In one (1) file examined, the rental contract that applies to the new admission is over the Rent Reasonableness Certification. b. Three (3) files examined did not include evidence of the Rent Reasonableness Certification. c. 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 years 2008-2009 and 2009-2010.

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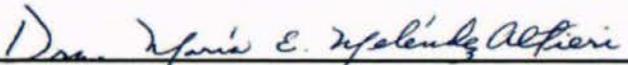
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2008-41 (FA) Utilities Allowance (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed utilities allowance test to forty (40) participants' files and we noted the following situations: a. 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. b. One (1) file examined has the utilities allowance calculated incorrectly in the HAP contract or amendment			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
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: a. 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. b. In two (2) files examined, the inspection			Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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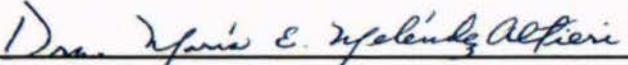
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>report have wrong the pass date.</p> <p>c. In two (2) files examined, the inspection report does not indicate the inspector conducting the inspection.</p> <p>d. In one (1) file examined, the inspection report does not indicate the date of the last inspection.</p>			
2008-43 (FA) HQS Enforcement (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections form HUD-52580; we found the following situations in thirty three (33) participants' files examined:</p> <p>a. Twelve (12) files examined, we noted that the inspection report does not indicate the final pass date by which each step of the deficiencies (the inspection report is designed to indicate the date).</p> <p>b. Ten (10) files examined, the inspection report does not have the initials of the Inspector Officer's that certifies the date on which the deficiencies were repaired.</p> <p>c. 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</p>		\$21,981	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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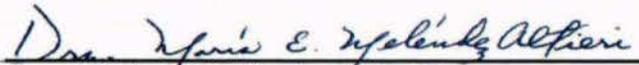
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		<p>repaired within the next twenty-four (24) hours from the date of inspection report. The file has no evidence of a re-inspection.</p> <p>d. In one (1) file examined the inspection report indicates that the unit does not pass inspection, however does not specify which deficiencies were found.</p> <p>e. 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>f. 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>g. Eighteen (18) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (24 hours or 30 calendar days) and the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract. Questioned Cost \$5,283</p> <p>h. Seven (7) files examined, the inspection report of the unit indicated failed and the files do not have evidence that the</p>			

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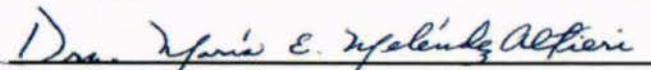
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		owner/tenant were corrected the deficiencies detected. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligation and/or cancellation of contract, within time frame required by federal regulations. The 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: a. In thirteen (13) payments examined, the HAP contract did not agree with the amount recorded on the HAP register and the amount on line 12 u of the Family Report (HUD-50058). During the audit we noted difference between the amount indicated in the lease and the amount paid to the landlord. The Municipality process duplicate rent payment and processed retroactive payment for units that not passing inspection. The Municipality process payments that are not allowed by the		\$9,799	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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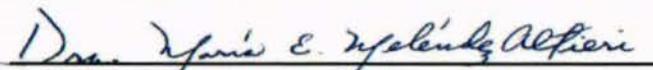
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		amount of \$9,727. b. In two (2) payments examined, we noted difference between the negative rent indicated in the Family Report (.HUD-50058) and the negative rent paid to the tenant. The Municipality process payments that are not allowed by the amount of \$72.			
2007-01 (FS)	Operating Deficit of General Fund	The Municipality's system of internal control relating to the budgeting function does not provide financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund) as required by law	The Municipality of Ponce continues with the measurements to control the expenditures and to decrease the accumulated deficit. For the fiscal years 2008-09 and 2009- 2010, the operational general fund budget shows the deficit amortization provision for \$100,000. It increases from \$50,000 to \$100,000 in both years.	None	Not resolved yet. See current year finding number 2010-01
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	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	None	Not resolved yet. See current year finding 2010-02

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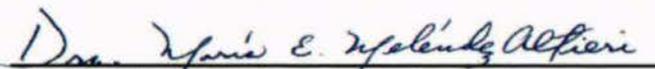
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		budget department personnel should use spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software.	long term debts. The present Municipality 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 revenues	We have performed audit procedures to forty-one (41) municipal license tax returns and noted that one (1) taxpayer files were not available for test.	On 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, in November 2008, the personnel who work with the review of the tax returns, received a training about their functions.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008, 2008-2009 and

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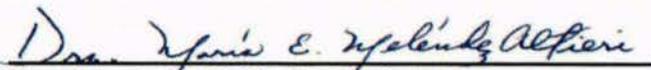
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			The Finance and Budget Director will implement additional internal control over the custody of taxpayers' files. This situation was not repeated on the Single Audit Report for the fiscal year 2007-2008.		2009-2010.
2007-04 (FS)	Construction Licenses Permits/Excise Taxes (MW)	We have performed audit procedures to thirteen (13) construction excise taxes files and noted the following exceptions: a. 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.	The Director of the Permits Office will require to the person in charge of the File Unit, that strengthen the internal control to assure that 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. The Municipal Treasurer required to an employee assigned to his unit, that	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008, 2008-2009 and 2009-2010.

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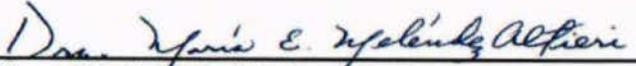
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		b. Two (2) auxiliary receipts were not possible traced to official receipt, daily cash collections, deposit slip, and bank statement.	maintain adequate measurements over the management and custody of the Daily Revenues Reports and that assure that all reports contain the corresponding deposit slips, collection receipts and daily collector reports.		
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>a. 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>b. In one (1) contract examined, the clause of no convict of crimes against the government was not included.</p> <p>c. In one (1) contract examined, the clause of no receiving salary payments from other governmental agency was not</p>		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008, 2008-2009 and 2009-2010.

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		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 budget period</p>	During the year 2008, the Head Start Program implemented a recruitment process to inform families with eligible children the services provided and to encourage them to apply for admission. During the school year 2008-2009, the Program complied 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.
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	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.	None	Full corrective action has been taken. This finding was not repeated in fiscal

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		Debarment.	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		year 2007-2008, 2008-2009 and 2009-2010.
2007-03 (FA) Accounting Management System (L) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No. 93.914)	The Municipality has no an effective accounting system procedures to ensure the timely and accurate reconciliation of the Accounting records maintained by the Program compared to those records maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; miscellaneous and prior year expenditures. Also, the program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balance. The financial data is maintained in electronic spreadsheets.	The Program acquired a Peach Tree Software applicable to non-for-profit entities.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008, 2008-2009 and 2009-2010.
2007-04 (FA)	HIV EMERGENCY RELIEF	During the fiscal year 2006-07, the monthly	The Program has established the	None	Not resolved

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Hon. María E. Meléndez Altieri, Mayor

March 31, 2011

Date

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

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

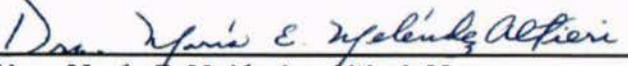
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Cash Management (C) (MW)	PROJECT GRANTS (CFDA No, 93.914)	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.	corrective actions to prevent this situation.		yet. See current year finding number 2009-14
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. The internal procedure to prepare the mentioned reports will be revised to eliminate of possibility of errors in such reports.	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 area included the

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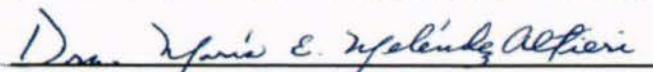
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					finding 2009-19, but the situation mentioned is such finding is different to those mentioned in such finding. The situation mentioned in the finding 2009-19 was not repeated in fiscal year 2009-2010.
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. 2. Annual Progress Report: Submitted August 1,		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2007-2008, 2008-2009 and 2009-2010. Note: The reporting area

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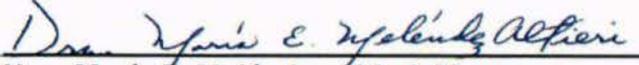
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		2007 thirty three 33 days after the due date.			included the finding 2009-20, but the situation mentioned in such finding is different to those mentioned in current year finding.
2007-08 (FA) Sub-recipient monitoring (M) (MW)	HIV EMERGENCY RELIEF 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 monitoring will be conducted at every agency.	None	Not resolved yet. See current year finding number 2009-17
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	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 years 2008-2009 and 2009-2010.

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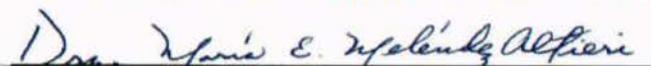
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Certification of Suspension and Debarment. 3. Eight contracts without evidence of verified in the Excluded Parties List (EPL).			
2007-10 (FA) - Cash management (C) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	During our cash management test, we selected fourteen (14) checks for test and noted the following exceptions: 1. Two (2) checks prepared without evidence of pickup or send date by the supplier and participant which avoid corroborate time elapsing payment procedures, according of these we couldn't evaluate cash management compliance requirement	Instruction will be given to the person in charge of maintain the check register control in the Program about the necessity of record in such register the date when the checks are sent to the supplier or picked up by the supplier. In addition to the 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.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
2007-11 (FA) - Davis Bacon's Act (D) Act (D) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	We evaluated the only contract of construction that was in force during the fiscal year 2006-07, and noted the following:	Adequate measurements will be taken to assure that all future construction contracts include the Provision for Payment of Prevailing Wages. (Item 1)	None	Full corrective action has been taken. This finding was not

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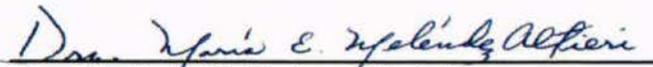
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<ol style="list-style-type: none"> Contract without contract provision for Payment of Prevailing Wages. Three (3) payroll certification without evidence that was monitored and evaluated by the payment official examiner. The rate per hour paid by the contractor to Truck a below the required minimum amount of \$5.30 per hour. One (1) payroll certification without the contractor signature. 	<p>The Engineering Department will strengthen the internal control over monitoring of payroll certification received by contractors. (Item 2).</p> <p>The Pre-Audit personnel of The Municipality will be oriented about The importance of verify the computations of the construction project certification or invoices amount and assure that all certification included in as supporting documents of the payments includes certification included in as supporting documents of the payments includes the required signatures.</p>		repeated in fiscal years 2008-2009 and 2009-2010.
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	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	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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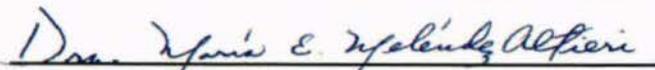
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		<p>records present more obligations.</p> <p>In twenty (20) contracts examined, we found the following exceptions:</p> <ol style="list-style-type: none"> Two (2) contracts were not obligated in IDIS report system by the actual amounts. The Municipality obligates the contract for an amount greater than the actual. One (1) contract was obligated by the same amount of \$40,000.00 twice in the accounting system of the program. 	<p>Post into the program's accounting system, using the same data.</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>		
2007-13 (FA) - Sub-recipient Monitoring (M) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	<p>We evaluated the only monitoring issued during the fiscal year 2006-07, and noted the following:</p> <p>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.</p> <p>Preparing the Evaluation: The audit did not have</p>		None	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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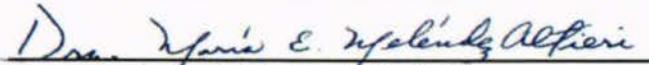
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		a budget approved for the period been audited that indicates the kind of test which are required accordingly to the 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.			
2007-14 (FA) – Drawdown of Fund Home (N) (MW)	HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)	We evaluated the fourteen (14) drawdowns and noted the following: A drawdown number 1307258 did not have the signature of the officer who prepared the request. In the drawdown number 1425064, we noted that the drawdown was approved and authorized by the same officer.	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. A local form, Request Voucher for Grant Payment IDIS, was developed and revised to require only personnel authorized in IDIS to process drawdown requests. Department's Director was left for the only purpose of acknowledging the transaction at the end of the process. The payment	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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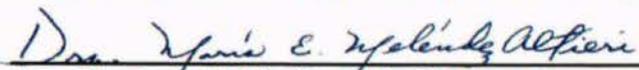
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			process, before IDIS is accessed, begins with the Department's Director written authorization.		
2007-15 (FA) – Participant Eligibility (E) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>We have performed an eligibility test to forty (40) participant's files and noted the following exceptions:</p> <ol style="list-style-type: none"> Two (2) files examined did not include evidence of income. 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. Nine (9) files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice. Three (3) files examined did not include Sworn Statement, which 	<p>The Quality Control Unit was restructured to improve the established procedures to evaluate file content and report accuracy.</p> <p>Technical training will be provided to the personnel assigned.</p> <p>The Program Director will be aggressive in supervise the use of the checklist entitled "Listado de Cotejo del Reexamen 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</p>	Not Determinable	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009. Note: The Participant Eligibility area included the finding 2010-20, but the situation mentioned in such finding is different to those mentioned in the finding 2007-15 (FA).

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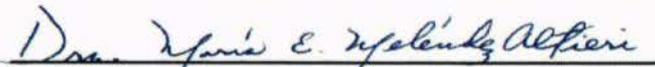
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		<p>examined did not include evidence that the participant filled the income tax return for the last five years.</p> <p>16. Three (3) files examined did not include evidence of family member's Birth Certificates.</p> <p>17. Four (4) files examined 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:</p> <ol style="list-style-type: none"> 1. The Voucher Unit 2. The HAP Voucher Expenses 3. The "Portability Out" HAP Voucher Expense 	<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 system. (findings 1-3)</p>	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2008-2009. Note: The financial reporting area includes the finding 2009-22, but the

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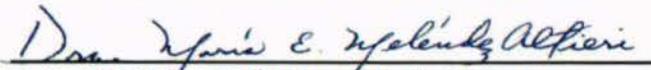
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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		4. The "Portability In" HAP Voucher Expense 5. The Administrative Expense In the period covered from October 1, 2006 to December 31, 2006 the following items reported certain differences: 1. The Voucher Unit 2. The HAP Voucher Expenses 3. The "Portability In" Voucher Unit 4. The "Portability In" HAP Voucher Expense 5. The Administrative Expenses In the period covered from January 1, 2007 to June 30, 2007 the following items reported certain differences: 1. The Administrative Expenses			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: 1. Three (3) files examined without complete items 5h "Date of Last Annual HQC Inspection" and 5i "Unit Inspection Date" in HUD's Form 50058.	The Program Supervisor 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.	Not Determinable	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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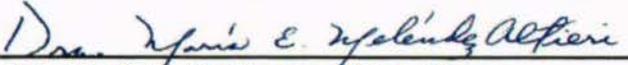
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		<p>2. One (1) file examined without complete item 5h "Date of Last Annual HQS Inspection" in HUD's Form 50058.</p> <p>3. In five (5) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</p>			
2007-18 (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 be 80% to 97% of units' sample.	The Program Director has established a Quality Control Unit and implemented a form entitled "Supervisor Internal Control Evaluation", which will allow evaluate the file content and the reports accuracy.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
2007-19 (FA) – Reasonable Rent (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>We have performed compliance test to forty (40) participant's files and we noted the following situations:</p> <p>1. In two (2) files examined, there was an increase in rent to "Owner" and has no</p>	<p>The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants.</p> <p>The Inspectors Supervisor will monitor all</p>	Not determinable	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-

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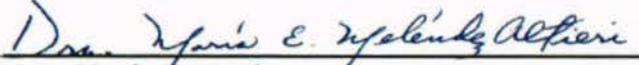
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>evidence of Reasonable Analysis Certification.</p> <p>2. One (1) file examined have the payment standard applied to the Family Report HUD-50058 was calculated incorrectly because The Municipality did not use the correct Fair Market Value Table applied to the fiscal year 2006-07.</p> <p>3. According to the Fair Market Value for the fiscal year 2006-07, 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.</p>	<p>the new inspections that comply with the current rents for comparable unassisted unit, has the documentation that evidence of the Rent Reasonable Certification.</p> <p>The Program Supervisor reviews the Administrative Plan and corrected the Payment Standard within 110%.</p> <p>The Program Superior has create a form will evaluate and monitor any increase of rent according with the process established.</p>		2009 and 2009-2010.
2007-20 (FA)- Utilities allowance (N)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>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.</p>	<p>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.</p>	Not Determinable	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2011

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, 2009 – June 30, 2010

Fiscal Year: 2009-2010

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

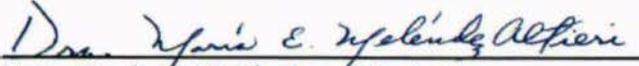
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2007-21 (FA)- Housing quality standards inspections (N) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We have performed Housing Quality Standard Inspections test to forty seven (47) participants' files and we noted the following situations: 1. In eleven (11) files examined, there are no evidence of the inspection reports applicable for the fiscal year 2006-07.	The Program Director has restructured the Quality Control Unit (QCU) and designated another personal, which will review all the files of participants. New personnel will be hired for Housing Inspectors. 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. HQS Inspection Training was conducted. Acquired mobile inspections tablets and software to facilitate the process of inspections and conducted on time as required.	Not Determinable	Full corrective action has been taken. This finding was not repeated in fiscal years 2008-2009 and 2009-2010.
2007-22 (FA) Housing quality	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	The Program Director has established a Quality Unit, hired new personnel and designated a supervisor for the	Not Determinable	Full corrective action has been taken. This

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

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

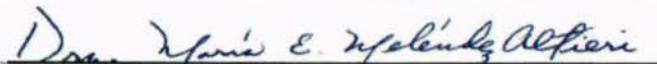
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<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> <p>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.</p>			
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 years 2008-

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

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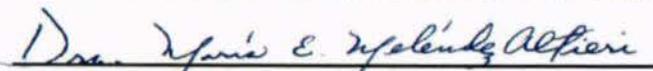
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
					2009 and 2009-2010.

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Hon. María E. Meléndez Altieri, Mayor

March 31, 2011

Date