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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SAN JUAN
AUDITORIA 2005-2006
30 DE JUNIO DE 2006

MUNICIPALITY OF SAN JUAN CAPITAL CITY OF PUERTO RICO

OMB CIRCULAR A-133 AUDIT As of and For the Fiscal Year Ended June 30, 2006 and Independent Auditors' Report



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**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
OMB CIRCULAR A-133 AUDIT
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

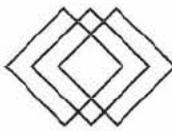
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**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART I

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND ADDITIONAL
SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2006,
AND INDEPENDENT AUDITORS' REPORT**



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Legislature of
Municipality of San Juan,
Capital City of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Capital City of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Comunidad del Retiro, which represents three percent and two percent of the assets and revenues of the aggregate remaining fund information, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Comunidad del Retiro, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Capital City of Puerto Rico, as of June 30, 2006, 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.

The Management's Discussion and Analysis on pages 5 through 15, and the Budgetary Comparison Schedule – General Fund on page 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Municipality's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompany schedule of expenditures of federal awards is presented for the purposes of additional analysis, as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not required part of the basic financial statements. This supplementary information is the responsibility of Municipality's management. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006, on our consideration of Municipality's internal control over financial reporting and 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 and 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.

November 21, 2006, except for the last paragraph of
Note 15 as to which the date is December 12, 2006

Aquino, De Cordova, Alfaro & Co. LLP

Stamp number 2210138
has been affixed to the
original report



**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2006

The Management of the Municipality of San Juan (the "Municipality") provides the Municipality's comprehensive annual financial report and the discussion and analysis of the Municipality's financial performance during the fiscal years ended June 30, 2006.

Since the Management's Discussion and Analysis is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's net assets decreased approximately \$19.1 million.
- In the fund financial statements, total revenue decreased approximately \$6.7 million (or 1.2) while total expenditures decreased approximately \$27.2 million (or 4.1%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit of approximately \$3.4 million.
- On a budgetary basis, the General Fund's actual revenues exceeded actual expenditures by approximately \$1.8 million.
- The Municipality issued bonds and notes amounting to approximately \$24.7 million to finance capital improvements and equipment.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Municipality. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information (budgetary schedules) and additional supplementary information (combining financial statements) in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, and their difference reported as net assets. Fluctuations in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are funded by the government's general tax and other revenue source. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

The combining financial statements referred to earlier in connection with nonmajor component units are present following the required supplementary information. The total columns of these combining financial statements carry forward to the applicable fund financial statement.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) had not been reported nor depreciated in governmental financial statements. Governmental Accounting Standards Board ("GASB") Statement No. 34 requires that these assets be valued and reported within the governmental column of the government-wide financial statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

Condensed net asset information is presented below:

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

Condensed Statements of Net Assets
As of June 30,

	2006	2005	Change	Pctg.
ASSETS				
Capital assets	\$ 537,154,907	\$ 536,489,629	\$ 665,278	0.1%
Other assets	378,472,473	351,452,865	27,019,608	7.7%
Total assets	915,627,380	887,942,494	27,684,886	3.1%
LIABILITIES				
Current liabilities	322,024,378	292,478,901	29,545,477	10.1%
Noncurrent liabilities	587,339,345	570,090,117	17,249,228	3.0%
Total liabilities	909,363,723	862,569,018	46,794,705	5.4%
NET ASSETS				
Invested in capital assets, net of related debt	222,641,723	207,467,903	15,173,820	7.3%
Restricted for:				
Debt service	10,355,407	9,174,521	1,180,886	12.9%
Capital projects	86,376,857	75,484,926	10,891,931	14.4%
Unrestricted	(313,110,330)	(266,753,874)	(46,356,456)	17.4%
Total net assets	\$ 6,263,657	\$ 25,373,476	\$ (19,109,819)	-75.3%

Net assets of the Municipality decreased approximately by \$19.1 million. Such decrease is the effect of the approximately \$46.8 million increase in total liabilities offset by an increase of approximately \$27.7 million in total assets. Total assets increased as the result of the net effect of: (i) an increase in capital assets of approximately \$665,000 mainly due to infrastructure, buildings and site improvements to the Municipality's facilities, net of depreciation; (ii) an increase of approximately \$27.0 million in other assets mainly due to an increase in cash and cash equivalents.

The Municipality's combined net assets totaled approximately \$6.3 million at the end of fiscal 2006, compared to net assets of approximately \$25.4 million at the end of the previous year.

The largest portion of the Municipality's net assets is the unrestricted deficit. This is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Management's Discussion and Analysis - Continued

As of and for the Year Ended June 30, 2006

An additional portion of the Municipality's net assets represents the investment in capital assets such as land, buildings, equipment, among others, less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

Changes in Net Assets

The condensed changes in net assets information is presented below:

**Condensed Statements of Activities
For the Years Ended June 30,**

	2006	2005	Change	Pctg.
Program revenues:				
Charges for services	\$ 76,990,119	\$ 69,272,861	\$ 7,717,258	11.1%
Operating grants and contributions	118,837,739	119,609,044	(771,305)	-0.6%
Capital grants and contributions	1,568,275	1,701,006	(132,731)	-7.8%
General revenues:				
Property taxes	206,394,897	242,474,497	(36,079,600)	-14.9%
Municipal license tax	131,369,460	125,252,868	6,116,592	4.9%
Grants and contributions not restricted to specific programs	31,433,657	26,118,653	5,315,004	20.3%
Interest income	5,932,657	2,834,672	3,097,985	109.3%
Gain on sale of capital assets	3,858,933	-	3,858,933	n/a
Other	3,261,171	5,077,958	(1,816,787)	-35.8%
Total revenues	579,646,908	592,341,559	(12,694,651)	-2.1%
Expenses:				
General government	101,103,875	88,431,998	12,671,877	14.3%
Public safety	52,287,545	47,699,570	4,587,975	9.6%
Public works	58,182,626	60,131,135	(1,948,509)	-3.2%
Culture and recreation	19,429,725	20,418,258	(988,533)	-4.8%
Health and welfare	255,081,642	266,847,420	(11,765,778)	-4.4%
Urban development	53,542,461	53,464,789	77,672	0.1%
Economic development	25,627,780	29,078,967	(3,451,187)	-11.9%
Education	9,384,436	9,621,025	(236,589)	-2.5%
Interest on long-term debt	24,116,637	25,516,292	(1,399,655)	-5.5%
Total expenses	598,756,727	601,209,454	(2,452,727)	-0.4%
Change in net assets	(19,109,819)	(8,867,895)	(10,241,924)	115.5%
Net assets, beginning of year	25,373,476	34,241,371	(8,867,895)	-25.9%
Net assets, end of year	\$ 6,263,657	\$ 25,373,476	\$ (19,109,819)	-75.3%

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

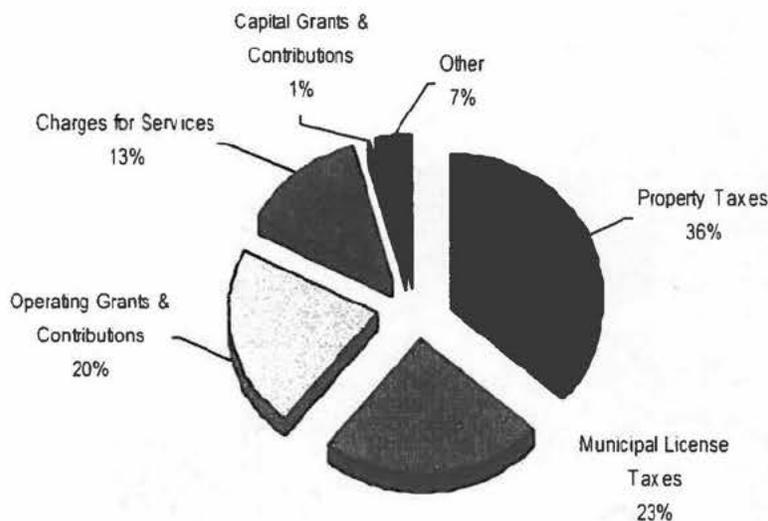
The Municipality's net assets decreased by approximately \$19.1 million. Approximately 58.3 percent (62.1 percent in 2005) of the Municipality's total revenue came from taxes, while approximately 26.2 percent (25.0 percent in 2005) resulted from grants and contributions, including federal aid. Charges for Services provided approximately 13.3 percent (11.7 percent in 2005) of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works, urban development and public safety.

Revenues from property and municipal license taxes decreased by approximately 8.15 percent. The reduction is mainly due to the effectiveness reached during 2005 over the property tax assessments and collections efforts. This effectiveness was the direct result of the creation of the Special Structure and Population Task Force which allowed the City to aggressively pursue delinquent taxpayers.

Charges for services increased by approximately 11.1 percent when compared with prior fiscal year mainly due an increase in health care service revenues. Gains on sale of capital assets of approximately \$3.9 million are directly related to the sale of land as part of a program to redevelop certain clusters in San Juan. .

The following chart summarizes the Municipality's revenues by sources for the governmental activities for the fiscal year ended June 30, 2006.

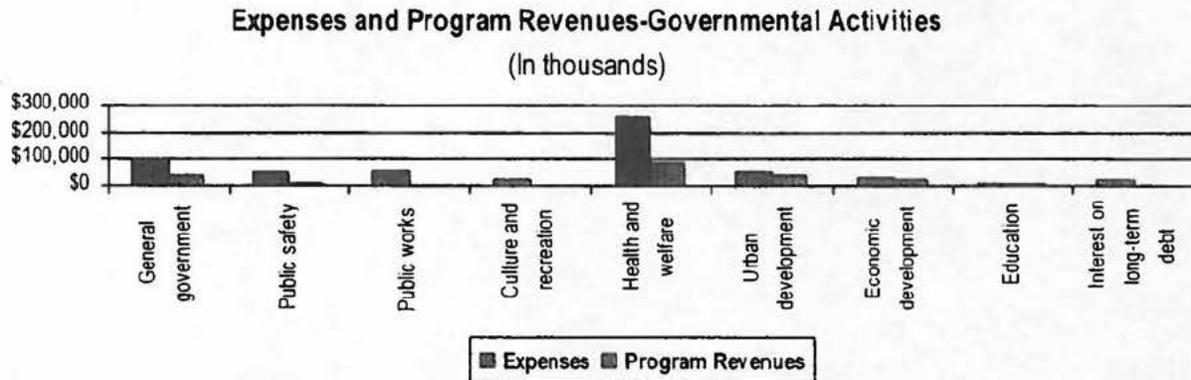
Revenues by Source-Governmental Activities



The Municipality's total expenses amounted to \$598.8 million and \$601.2 million for the year ended June 30, 2006 and 2005, respectively. Decrease in total expenses was mainly due to a decrease in payroll and professional services.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal year ended June 30, 2006.



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$99.9 million, an increase of \$1.0 million in comparison with the prior year. There are reservations of fund balance amounting to \$198.5 million. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$31.4 million), 2) to pay debt service (\$10.4 million), 3) to pay for capital projects (\$86.4 million), 4) for inventories not yet consumed (\$6.8 million), or 5) Due from CRIM (\$63.5 million). Accordingly, since there is an excess of reservations over the total fund balance there exists a deficiency in the unreserved balance of \$98.6 million in the governmental funds.

Within the governmental funds, it is included the general fund, which is the main operating fund of the Municipality. As of June 30, 2006 and 2005, the general fund has a deficit of \$31.8 million and \$35.2 million, respectively. Key factors in the decrease of the deficit are as follows:

- Decrease of \$17.7 million in total revenues.
- Decrease of \$15.6 million in total expenditures.
- Other financing sources amounting \$38.1 million

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

Decrease of \$22.3 million in total revenues was mainly due to an increase of \$6.1 million, \$6.6 million, \$5.3 million, \$2.6 million in municipal license taxes, license, permits and other local taxes, intergovernmental local and charges for services, respectively; and a decrease of \$38.8 million in property taxes.

In addition, the Municipality moved aggressively to improve the collection efforts for municipal license taxes, license, permits and other local taxes due to a strategic plan to reduce tax evasion, better equipment and personnel training. Finally, the financial sector had a better financial performance in comparison to previous years which resulted in additional municipal license taxes revenues to the Municipality.

Increase in charges for services was related with uncovered losses on the billing system caused by the passing of Tropical Storm Jeanne in previous year that did not occur during the current period.

The tighter controls imposed by the Municipality's management caused a decrease of \$15.6 million in expenditures mainly due to decreases in payroll and professional services in all governmental activities.

Other financing sources amounting to \$38.1 million result from the proceeds of \$31.4 million of long-term debt issued, \$6.0 million from the sale of capital assets and \$687,258 of advances from CRIM.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

During the year, there was an increase of approximately \$41.4 million in appropriations between the original and final amended budget. The main component of the increase was to the Health Department for the expansion of drugs and medicines program, the increase on wages to nurse personnel and the expansion of other medical related services.

The increase was possible because of additional anticipated revenues. Those revenues included the proceeds from long-term debt issued and the sale of capital assets.

Notwithstanding tighter control imposed by the Municipality's managements, there was An Excess of revenues over expenditures on the budget of approximately \$1.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2006 and 2005 amounted to approximately \$537.2 million and \$536.5 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, sites, improvements, equipment, intangibles, infrastructure, works of art, vehicles and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Municipality, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

Capital Assets, Net of Accumulated Depreciation (in thousands)
As of June 30,

	2006	2005	Change	Pctg.
Land	\$ 54,388	\$ 56,551	\$ (2,163)	-3.8%
Buildings and building improvements	200,991	212,466	(11,475)	-5.4%
Site improvements	89,837	97,890	(8,053)	-8.2%
Infrastructure	66,464	40,804	25,660	62.9%
Equipment	6,555	6,712	(157)	-2.3%
Works of art	2,224	2,872	(648)	-22.6%
Intangible	1,530	1,913	(383)	-20.0%
Vehicles	3,284	2,420	864	35.7%
Construction in progres	111,882	114,862	(2,980)	-2.6%
Total	\$ 537,155	\$ 536,490	\$ 665	0.1%

The slight increase in the Municipality's investment in capital assets was 0.1% percent over last year. Actual expenditures to purchase or construct capital assets for the years ended June 30, 2006 and 2005 were \$32.2 and \$42.3 million, respectively. Depreciation charges amounted to \$29.3 million and \$31.3 million for the years ended June 30, 2006 and 2005, respectively.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purpose. As of June 30, 2006 and 2005, the Municipality has approximately \$86.4 million and \$75.5 million, respectively, of unexpended proceeds from bond issuances that are committed to future construction activities. Additional details regarding the Municipality's capital assets can be found in the notes to the financial statements.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

Based on the current total net assessed valuation of real and personal property in San Juan provided by the Governmental Development Bank for Puerto Rico ("GDB") of approximately \$4.1 billion, the Legal Margin of San Juan as of June 30, 2006, was \$412.7 million. The Municipality's Available Legal Margin as of June 30, 2006, was calculated by GDB to equal \$94.6 million after subtracting from the Legal Margin the amount of \$367.1 million in outstanding general obligation debt as of June 30, 2006, and adding to the Legal Margin the amount in its Redemption Fund of \$49.0 million as of June 30, 2006.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 of July 3, 1996, as amended, provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Debt Service Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("payment capacity"). The rating assigned is BBB +, negative watch by Standard & Poor's Investor Services.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Debt Service Fund, are not sufficient to cover such debt service. It has never been necessary to apply basic taxes to pay debt service on general obligation debt of the Municipality.

During fiscal year 2006, the Municipality issued bonds amounting to \$24.7 million to provide for the construction and equipment needs of the Municipality and a note amounting to \$31.4 million to pay debt incurred in prior years. At June 30, 2006, the Municipality had \$367.1 million of general obligation bonds outstanding.

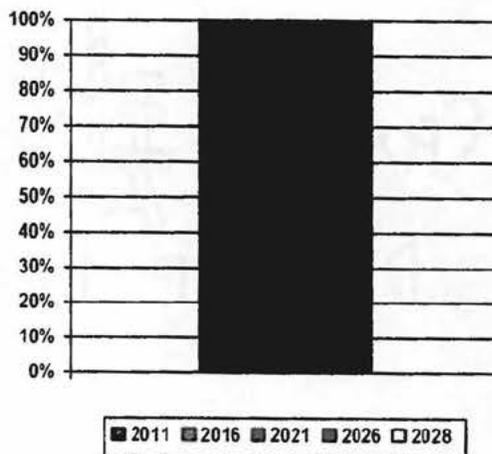
The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

**General Obligation Bonds
Principal Amortization
In Five Year Increments Following Fiscal Year 2006**

Fiscal Years	Principal Amortization
2007-2011	\$ 139,285,000
2012-2016	130,330,000
2017-2021	56,055,000
2022-2026	39,045,000
2027-2028	2,360,000
Total	<u>\$367,075,000</u>

As can be seen in the chart below, approximately 73% of the Municipality's outstanding general obligation bonds will be retired within the next ten years.

GOB Principal Amortization



**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Management's Discussion and Analysis - Continued
As of and for the Year Ended June 30, 2006

Additional details regarding the Municipality's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. These factors were considered when preparing the Municipality's budget for the 2006-2007 fiscal year.

During June 2006, the Municipality approved legislation to impose and collect a special municipal tax for room occupation to hotels' guest in San Juan and a sales and usage tax on retail and services within the territorial limits of San Juan that will become effective in 2006-2007 fiscal year. It is intended that the use of these revenues will avoid the need of additional resources for working capital purposes. Since these factors become effective after the approval of the Municipality's budget and will be present for the first time in 2006-2007 fiscal year, they were not considered when preparing the Municipality's budget for the same period.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accounting. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director on the 5th floor of the Municipal Tower, 160 Chardón Avenue, San Juan, Puerto Rico 00919.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**STATEMENT OF NET ASSETS
As of June 30, 2006**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 86,867,979
Cash with fiscal agent	152,041,914
Accounts receivable:	
Municipal license tax	4,000,000
Intergovernmental	108,329,236
Other	14,588,294
Inventories	6,842,467
Deferred charges	2,010,590
Restricted assets - Cash and cash equivalents	3,791,993
Capital assets not being depreciated	195,528,698
Capital assets being depreciated, net	<u>341,626,209</u>
Total assets	<u>915,627,380</u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	99,570,965
Deferred revenues:	
Municipal license tax	123,119,093
Federal grant revenues	15,746,638
Matured bonds and interest payable	38,146,228
Noncurrent liabilities:	
Due within one year	45,441,454
Due in more than one year	<u>587,339,345</u>
Total liabilities	<u>909,363,723</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	222,641,723
Restricted for:	
Debt service	10,355,407
Capital projects	86,376,857
Unrestricted	<u>(313,110,330)</u>
Total net assets	<u>\$ 6,263,657</u>

The notes to the financial statements are an integral part of this statement

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 101,103,875	\$ 29,161,921	\$ 6,594,586	\$ 1,000,138	\$ (64,347,230)
Public safety	52,287,545	325,071	4,217,164	-	(47,745,310)
Public works	58,182,626	-	-	-	(58,182,626)
Culture and recreation	19,429,725	315,600	-	-	(19,114,125)
Health and welfare	255,081,642	38,856,492	50,089,653	568,137	(165,567,360)
Urban development	53,542,461	2,024,866	35,888,862	-	(15,628,733)
Economic development	25,627,780	4,013,269	18,945,109	-	(2,669,402)
Education	9,384,436	2,292,900	3,102,365	-	(3,989,171)
Interest on long-term debt	24,116,637	-	-	-	(24,116,637)
Total governmental activities	\$ 598,756,727	\$ 76,990,119	\$ 118,837,739	\$ 1,568,275	(401,360,594)

General revenues	
Property taxes	206,394,897
Municipal license tax	131,369,460
Grants and contributions not restricted to specific programs	31,433,657
Interest income	5,932,657
Gain on sale of capital assets	3,858,933
Other	3,261,171
Total general revenues	382,250,775
Change in net assets	(19,109,819)
Net assets at beginning of year	25,373,476
Net assets at end of year	\$ 6,263,657

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2006

ASSETS	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 25,021,064	\$ -	\$ 35,386,302	\$ 26,460,613	\$ 86,867,979
Cash with fiscal agent	12,835,997	48,972,923	-	90,232,994	152,041,914
Accounts receivable					
Municipal license tax	4,000,000	-	-	-	4,000,000
Intergovernmental	86,464,613	7,118,124	-	14,746,499	108,329,236
Other	14,285,075	-	-	303,219	14,588,294
Due from other funds	19,949,968	-	-	-	19,949,968
Inventories	4,578,321	-	-	2,264,146	6,842,467
Restricted assets - cash and cash equivalents	-	-	-	3,791,993	3,791,993
Total assets	\$ 167,135,038	\$ 56,091,047	\$ 35,386,302	\$ 137,799,464	\$ 396,411,851
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities					
Accounts payable and accrued liabilities	\$ 75,789,171	\$ 255,872	\$ 4,426,013	\$ 19,099,909	\$ 99,570,965
Due to other funds	-	7,333,540	253,055	12,363,373	19,949,968
Matured bonds and interest payable	-	38,146,228	-	-	38,146,228
Deferred revenues					
Municipal license tax	123,119,093	-	-	-	123,119,093
Federal grant revenues	-	-	-	15,746,638	15,746,638
Total liabilities	198,908,264	45,735,640	4,679,068	47,209,920	296,532,892
Fund balances (deficit)					
Reserved for					
Inventories	4,578,321	-	-	2,264,146	6,842,467
Debt service	-	10,355,407	-	-	10,355,407
Capital projects	-	-	-	86,376,857	86,376,857
Due from CRIM	63,519,234	-	-	-	63,519,234
Encumbrances	31,423,115	-	-	-	31,423,115
Unreserved					
General fund	(131,293,896)	-	-	-	(131,293,896)
Special revenue funds	-	-	30,707,234	1,948,541	32,655,775
Total fund balances (deficit)	(31,773,226)	10,355,407	30,707,234	90,589,544	99,878,959
Total liabilities and fund balances (deficit)	\$ 167,135,038	\$ 56,091,047	\$ 35,386,302	\$ 137,799,464	

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	537,154,907
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	2,010,590
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(632,780,799)
Total net assets of governmental activities	\$ 6,263,657

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 156,620,544	\$ 49,774,353	\$ -	\$ -	\$ 206,394,897
Municipal license tax	131,369,460	-	-	-	131,369,460
Licenses, permits and other local taxes	23,859,011	-	-	-	23,859,011
Charges for services	46,877,344	-	-	2,030,866	48,908,210
Fines and forfeitures	4,222,898	-	-	-	4,222,898
Interest	5,932,657	-	-	-	5,932,657
Intergovernmental:					
Federal	-	-	-	112,243,153	112,243,153
Local	31,433,657	-	-	8,162,861	39,596,518
Other	3,248,396	-	-	12,775	3,261,171
Total revenues	403,563,967	49,774,353	-	122,449,655	575,787,975
EXPENDITURES					
Current:					
General government	87,743,293	-	-	7,311,882	95,055,175
Public safety	45,498,680	-	-	4,581,364	50,080,044
Public works	55,498,404	-	-	2,217,751	57,716,155
Culture and recreation	10,555,475	-	439	2,099,447	12,655,361
Health and welfare	197,226,056	-	-	49,987,731	247,213,787
Urban development	7,513,928	-	-	41,498,966	49,012,894
Economic development	10,892,918	-	-	10,320,847	21,213,765
Education	5,969,605	-	-	3,195,893	9,165,498
Capital outlays	5,051,767	-	14,677,617	12,400,171	32,129,555
Debt service:					
Principal	7,409,288	27,525,000	-	223,097	35,157,385
Interest and other charges	4,850,571	21,068,467	-	2,221,131	28,140,169
Total expenditures	438,209,985	48,593,467	14,678,056	136,058,280	637,539,788
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(34,646,018)	1,180,886	(14,678,056)	(13,608,625)	(61,751,813)
OTHER FINANCING SOURCES (USES):					
Transfer in	18,775	-	-	-	18,775
Bonds issued	-	-	-	24,655,000	24,655,000
Note payable issued	31,350,000	-	-	-	31,350,000
Advances from CRIM	687,258	-	-	-	687,258
Sale of capital assets	6,021,168	-	-	-	6,021,168
Transfer out	-	-	-	(18,775)	(18,775)
Total other financing sources (uses)	38,077,201	-	-	24,636,225	62,713,426
NET CHANGE IN FUND BALANCES (DEFICIT)	3,431,183	1,180,886	(14,678,056)	11,027,600	961,613
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	(35,204,409)	9,174,521	45,385,290	79,561,944	98,917,346
FUND BALANCES (DEFICIT), END OF YEAR	\$ (31,773,226)	\$ 10,355,407	\$ 30,707,234	\$ 90,589,544	\$ 99,878,959

The notes to the financial statements are an integral part of this statement

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07/18/2007

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

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

Net change in fund balances - total governmental funds	\$	961,613
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	\$ 32,129,555	
Current year depreciation	<u>(29,302,042)</u>	2,827,513
The net effect of various transactions involving capital assets		(2,162,235)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Bond, note and capital lease proceeds	(56,005,000)	
Advances from CRIM	(687,258)	
Bond issue costs	88,501	
Principal repayments	<u>35,157,385</u>	(21,446,372)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of deferred charges		(174,667)
Change in claims and judgments		(2,500,000)
Change in compensated absences accrual		984,274
Change in landfill obligation		800,000
Change in other liabilities		<u>1,600,055</u>
Change in net assets of governmental activities		<u>\$ (19,109,819)</u>

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Notes to Financial Statements

As of and for the Year Ended June 30, 2006

1. Organization and Summary of Significant Accounting Policies

The Municipality of San Juan (the "Municipality") was founded in 1521 and is the largest municipality and the Capital City of the Commonwealth of Puerto Rico. The Municipality's governmental system consists of executive and legislature bodies. The Municipality is governed by a Mayor and a seventeen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services to its citizens.

The Municipality implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement*, as of July 1, 2001.

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The basic, but not the only criterion for including a potential component unit 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. Accounting principles generally accepted in the United States of America ("USGAAP") details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. The Comunidad de Retiro (the "Project") is included in the financial statements as a blended component unit.

The Project was formed for the purpose of operating 356-unit housing project for the elderly and/or handicapped. The Project is operated under Section 231 of the National Housing Act, as amended, and regulated by the U.S. Department of Housing and Urban Development as to rent charges and operating methods. Legal title of the Project is held by the Municipality.

Separate financial statements of the individual component unit can be obtained from the Project's administrative office.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Administrative office:

Condominio Centro de Altamira
Paseo 501 Street, Suite 210
Urbanización Altamira
San Juan, Puerto Rico 00920

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been eliminated from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

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

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Loan Guarantee Fund – is the accounting entity used to account for the loan agreement with the US Department of Housing and Urban Development under a variable rate note guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule – general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund types are as follows:

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activities, except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and local statutes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for and the payment of long-term general obligation bonds principal, interest, and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

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

Except for budgetary purposes, the basis of accounting used by the Municipality conforms with 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

Property taxes are all considered susceptible to accrual if commonly collected within 60 days following the end of the fiscal period, unless unusual circumstances justify a greater period. The Municipality understands that the unusual criteria was met through an Agreement reached with CRIM, whereas the Municipality assumes responsibility over the property tax assessment and collections, including the foreclosure process of delinquent accounts, previously done exclusively by CRIM. This agreement justifies the extension of the collection period for revenue recognition purposes from 60 to 360 days following June 30, 2006 as defined in NCGA Interpretation 3.

Other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, 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 Municipality's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

1. *Cash, cash equivalents, cash with fiscal agent and restricted cash and cash equivalents:*

The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

Restricted cash and cash equivalents in other governmental funds represents mortgage escrow deposits, reserve for replacement and residual receipts deposited with the mortgagee.

2. *Receivables and payables:*

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 determined based upon past collection experience and current economic conditions, and are shown net of an allowance for uncollectible. Intergovernmental receivables in the general fund represent mostly property tax accounts that are levied by CRIM and contributions from the Puerto Rico Electric Power Authority ("PREPA") as payment in lieu of taxes. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represents the distribution of property tax collected by the CRIM, which is restricted for the debt service.

3. *Inventories:*

Inventories in the general fund are reported at cost. Inventories consist of supplies held for consumption and medicines used in providing health care services stated on a first-in, first out basis. Inventories are recorded as expenditures at the time the inventory items are consumed. A fund balance reserve equal to the value of the inventories is established in the general fund and in other governmental funds to indicate that the inventories do not constitute expendable financial resources available for appropriation.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

4. *Capital assets:*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings	40
Infrastructure	40
Building and site improvements	15
Works of art	10
Intangible assets	10
Vehicles	5
Equipment	3 to 5

Intangible assets at June 30, 2006, consist primarily of computer software.

5. *Long-term obligations:*

The liabilities reported in the government-wide financial statements include the general and special obligation bonds, long-term notes, other long-term liabilities, such as vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties, and landfill postclosure care costs. Bond issuance costs are reported in the government-wide financial statements as deferred charges and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond issuance costs 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.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

6. *Compensated absences:*

Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay and salary related benefits are accrued when incurred in the government-wide financial statements.

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 sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the government-wide financial statements when the employee meets such criteria.

7. *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.

8. *Reservations of fund balance:*

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

- a. *Inventories and Due from CRIM* - Represent fund assets that do not represent available financial resources.
- b. *Debt Service Fund* - Represents net assets available to finance future debt service payments.
- c. *Capital Projects* - Represent the reservation of amounts to be used for future expenditures of capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- d. *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.

9. *Interfund and intra-entity transactions:*

The Municipality has the following types of transactions among funds:

- a. *Transfers* - Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
- b. *Intra-Entity Transactions* - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

10. *Risk financing:*

The Municipality carries commercial insurance to cover property and 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 CRIM for the year ended June 30, 2006 amounted to approximately \$9.2 million. The current insurance policies have not been cancelled or terminated. CRIM also deducted approximately \$8.2 million for workers compensation insurance covering all municipal employees for the year ended June 30, 2006.

11. *Direct charges:*

Pursuant to and determined by an internal cost allocation plan certain costs initially borne by the General Fund are then billed as direct charges to other funds of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) as charges for services in the general fund. The corresponding expenses appear as function/program costs in the Statement of Activities.

12. *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2006:

- a. GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for periods beginning after December 15, 2005.
- b. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension Plans*, which is effective for periods beginning after December 15, 2006.
- c. GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which is effective for periods beginning after December 15, 2006.

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

2. Deposits

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 approximately \$40.7 million, \$35.4 million and \$20.7 million in the general fund, the loan guarantee and other governmental funds, respectively, were fully collateralized at June 30, 2006.

Other governmental funds' deposits with GDB at June 30, 2006 amounted to approximately \$107.1 million of which \$105.2 million are reserved principally for capital projects, and the \$49.0 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks. Also, other deposits at GDB in the general fund at June 30, 2006 of approximately \$12.8 are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. Receivables

A. Municipal license Tax

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2006, the tax rates were as follows:

- Financial business - 1.50% of gross revenues
- Other organizations - 0.20% for annual revenues up to \$1,000,000, and 0.50% over such volume.

This tax is due in two equal installments on July 15 and January 15 of each fiscal year. A discount of 5% is allowed when full payment is made on or before five working days after April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2006. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

B. Intergovernmental Receivables

Intergovernmental receivables in the general fund consist of the amount due from CRIM and the amount due from PREPA. The amount due from CRIM represents the estimated amount of real and personal property taxes levied but not yet collected by the CRIM on behalf the Municipality. The amount due from PREPA of approximately \$22.9 million represents the amount resulting from the revenues the Municipality is entitled to receive from PREPA in lieu of payment of taxes.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

The amounts receivable from other governmental entities are as follows:

	Amount
Due from CRIM	\$ 63,519,234
Due from PREPA	22,945,379
Total intergovernmental receivables	<u>\$ 86,464,613</u>

Amount presented in the debt service fund represents the special ad valorem tax restricted for debt service collected by the CRIM on behalf of the Municipality during 2006.

Intergovernmental receivables in other governmental funds represent principally expenditures incurred through the assignment of federal grants or awards not yet reimbursed by the federal and local governments. Following is a detail of the intergovernmental receivable:

<u>Description</u>	<u>Amount</u>
HIV Emergency Relief Formula Grant	\$ 4,145,953
Community Services Block Grant	1,907,509
Head Start	1,784,420
Community Development Block Grant	1,237,882
Citizen Participation	1,136,274
Cancer Control	583,807
Housing Opportunities for Persons with AIDS	397,732
Risk Reduction	311,887
Federal Transit Capital Improvements	310,698
State Federal Justice	248,467
Supportive Housing Program	202,799
Emergency Shelter Grants	138,708
Special Program for Aging – Title III	122,387
Public Safety Partnerships and Community Policing Grants	109,367
Grant Resistance Education & Training	104,665
Corporation for National Services	74,952
Others	<u>1,928,992</u>
Total	<u>\$ 14,746,499</u>

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Other

Other accounts receivable as of June 30, 2006, are as follows:

	General Fund	Other Governmental Funds	Total
Construction permits	\$ 6,392,918	\$ -	\$ 6,392,918
Medical Plans	4,685,768	-	4,685,768
Rent	1,266,933	-	1,266,933
Interests	926,616	-	926,616
Medicare	372,306	-	372,306
Other	640,534	303,219	943,753
	<hr/>	<hr/>	<hr/>
Total other receivables	<u>\$ 14,285,075</u>	<u>\$303,219</u>	<u>\$ 14,588,294</u>

4. Interfund Transactions

Interfund receivables and payables at June 30, 2006 are summarized as follows:

A. Due from/to other fund

<u>Receivable Fund</u>	<u>Payable Fund</u>			<u>Total</u>
	<u>Debt Service Fund</u>	<u>Loan Guarantee Fund</u>	<u>Other Governmental Funds</u>	
	\$		\$	
General	<u>7,333,540</u>	<u>\$ 253,055</u>	<u>12,363,373</u>	<u>\$ 19,949,968</u>

1. *Debt Service Fund:*

Act. No. 64 of 1996, as amended, authorized municipalities to withdraw the excess of ad valorem taxes over the actual debt service requirement. As of June 30 2006, there were approximately \$7.3 million of such excess as due from other funds in the general fund.

2. *Other Governmental Funds:*

The Municipality handles all disbursements through the general fund bank accounts. Accordingly, the amount due from other governmental funds mainly represents disbursements made on behalf of Federal Grants and Awards accounted for in other governmental funds that are reimbursed to the general fund within approximately 90-day period after year-end.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

5. Capital Assets

Capital assets are primarily funded through the issuance of long-term bonds and notes. Capital assets activity for the year ended June 30, 2006 was as follows:

Governmental Activities:	Balance July 1, 2005	Reclassifications	Additions	Retirements	Balance June 30, 2006
Capital asset, not being depreciated:					
Land	\$ 56,550,722	\$ -	\$ -	\$ (2,162,235)	\$ 54,388,487
Construction in progress	114,862,031	(29,258,619)	26,278,180	-	111,881,592
Total capital assets not being depreciated	171,412,753	(29,258,619)	26,278,180	(2,162,235)	166,270,079
Capital assets, being depreciated					
Buildings and building improvements	300,334,239	-	622,538	-	300,956,777
Site improvements	148,986,781	-	22,250	-	149,009,031
Infrastructure	70,884,724	29,258,619	-	-	100,143,343
Equipment	38,115,186	-	2,758,367	(604,235)	40,269,318
Works of art	5,492,999	-	-	-	5,492,999
Intangible	3,825,426	-	-	-	3,825,426
Vehicles	34,011,625	-	2,448,220	-	36,459,845
Total capital assets being depreciated	601,650,980	29,258,619	5,851,375	(604,235)	636,156,739
Less accumulated depreciation for					
Buildings and building improvements	(87,867,695)	-	(12,098,479)	-	(99,966,174)
Site improvements	(51,097,229)	-	(8,074,675)	-	(59,171,904)
Infrastructure	(30,080,679)	-	(3,598,324)	-	(33,679,003)
Equipment	(31,402,698)	-	(2,916,006)	604,235	(33,714,469)
Works of art	(2,620,668)	-	(647,966)	-	(3,268,634)
Intangible	(1,912,715)	-	(382,543)	-	(2,295,258)
Vehicles	(31,592,420)	-	(1,584,049)	-	(33,176,469)
Total accumulated depreciation	(236,574,104)	-	(29,302,042)	604,235	(265,271,911)
Total capital assets being depreciated, net	365,076,876	29,258,619	(23,450,667)	-	370,884,828
Governmental activities capital assets, net	\$ 536,489,629	\$ -	\$ 2,827,513	\$ (2,162,235)	\$ 537,154,907

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$2,925,244
Public safety	1,882,359
Public works	1,979,347
Culture and recreation	7,054,929
Health and welfare	5,566,585
Urban development	4,197,163
Economic development	5,121,095
Education	575,320
Total depreciation expense – governmental activities	<u>\$29,302,042</u>

6. Property Taxes

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the Commonwealth of Puerto Rico. 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 current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30. The difference between the preliminary and the final settlement from CRIM for fiscal year 2006 resulted in a liability of approximately \$687,258.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate for fiscal year 2006 is 9.03% for real property and 7.03% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. Accounts Payable and Accrued Liabilities

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Loan Guarantee Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$70,239,826	\$255,872	\$4,426,013	\$ 19,099,909	\$94,021,620
Accrued liabilities	5,549,345	-	-	-	5,549,345
Total	\$75,789,171	\$225,872	\$4,426,013	\$ 19,099,909	\$99,570,965

8. Deferred Revenues

A. Municipal License Tax

The deferred revenues of approximately \$123.1 million in the general fund at June 30, 2006 relates to municipal license tax collected in fiscal year 2006 that will be earned in fiscal year 2007.

B. Federal Government

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

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Vouchers	\$ 5,275,067
WESTAT	2,320,906
Welfare to Work Grants to States and Localities	2,177,524
Childhood Immunization Grants	1,015,886
Department of Treasury Equitable Sharing	854,723
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	702,927
Law Enforcement Block Grant	489,792
HOME	425,115
Child and Adult Care Food Program	401,541
Higher Education Institutional Aid - Title V	338,180
Maternal Child and Health Services Block Grant	190,250
Drug Free Community Support Program	85,031
Retired Volunteers Block Program	74,758
Others	1,394,938
Total	<u>\$15,746,638</u>

9. Long-Term Debt

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

	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
	\$		\$	\$	
Bonds payable	369,945,000	\$24,655,000	(27,525,000)	367,075,000	\$25,060,000
Mortgage payable	5,507,801	-	(223,097)	5,284,704	242,817
Notes payable	127,860,478	31,350,000	(2,762,801)	156,447,677	5,604,603
Advances from CRIM	40,505,418	687,258	(3,141,807)	38,050,869	9,017,329
Obligations under capital leases	4,520,607	-	(1,504,680)	3,015,927	1,216,705
Compensated absences	39,190,896	2,715,101	(3,699,375)	38,206,622	2,500,000
Claims and judgments	3,000,000	3,806,144	(1,306,144)	5,500,000	1,000,000
Landfill obligation	20,000,000	-	(800,000)	19,200,000	800,000
Other liabilities	1,600,055	-	(1,600,055)	-	-
Total	<u>\$ 612,130,255</u>	<u>\$ 63,213,503</u>	<u>\$(42,562,959)</u>	<u>\$ 632,780,799</u>	<u>\$ 45,441,454</u>

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

A. 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 the balance of the special ad valorem taxes in the debt service fund. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2006 amounted to approximately \$4.127 billion. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

B. Bonds Payable

The Municipality issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. During fiscal year 2006, the Municipality issued bonds for approximately \$24.7 million. Bonds payable outstanding at June 30, 2006 are as follows:

Description	Outstanding Amount
2005 general obligation bonds due in annual installments of \$480,000 to \$1,585,000, through July 1, 2025; with interest ranging from 4.23% to 5.31%	\$18,140,000
2005 general obligation bonds due in annual installments of \$720,000 to \$1,020,000, through July 1, 2012; with interest ranging from 4.23% to 4.73%	5,315,000
2004 general obligation bonds due in annual installments of \$570,000 to \$1,450,000, through July 1, 2024; with interest ranging from 4.17% to 5.28%	17,775,000
2004 serial bonds due in annual installments of \$365,000 to \$445,000, through July 1, 2009; with interest ranging from 4.17% to 4.38%	1,265,000
2004 general obligation bonds due in annual installments of \$500,000 to \$870,000, through July 1, 2019; with interest ranging from 3.28% to 4.80%	9,030,000
2004 general obligation bonds due in annual installments of \$815,000 to \$1,130,000, through July 1, 2027; with interest ranging from 2.76% to 5.31%	20,540,000
2003 general obligation bonds due in annual installments of \$415,000 to \$620,000, through July 1, 2028; with interest ranging from 1.61% to 4.00%	11,555,000

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Description	Outstanding Amount
2003 general obligation bonds due in annual installments of \$515,000 to \$565,000, through July 1, 2010; with interest ranging from 1.61% to 4.00%	2,210,000
2001 serial bonds due in annual installments of \$760,000 to \$4,825,000, through July 1, 2026; with interest ranging from 2.70% to 5.60%	51,110,000
2001 serial bonds due in annual installments of \$475,000 to \$1,195,000, through July 1, 2013; with interest ranging from 2.70% to 6.13%	6,700,000
2000 serial bonds due in annual installments of \$970,000 to \$2,680,000, through July 1, 2015; with interest ranging from 2.70% to 7.81%	18,335,000
1999 general obligations bonds due in annual installments of \$1,740,000 to \$5,885,000, through July 1, 2018; with interest ranging from 4.87% to 6.46%	49,990,000
1999 serial bonds due in annual installments of \$2,810,000 to \$7,255,000, through July 1, 2013; with interest ranging from 4.87% to 6.11%	41,820,000
1999 general obligations bonds due in annual installments of \$1,980,000 to \$6,260,000, through July 1, 2016; with interest ranging from 4.87% to 6.34%	47,010,000
1998 serial bonds due in annual installments of \$1,190,000 to \$4,695,000, through July 1, 2017; with interest ranging from 4.87% to 6.71%	36,910,000
1998 general obligations bonds due in annual installments of \$350,000 to \$1,605,000, through July 1, 2019; with interest ranging from 4.87% to 6.71%	13,980,000
1996 serial bonds due in annual installments of \$885,000 to \$2,830,000, through July 1, 2011; with interest ranging from 4.70% to 6.63%	12,200,000

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Description	Outstanding Amount
1996 general obligations bonds due in annual installments of \$420,000 to \$1,150,000, through July 1, 2009; with interest ranging from 4.87% to 6.75%	30,900
Total	<u>\$367,075,000</u>

These bonds are payable from the special ad valorem property tax of 2.00%, which is restricted for debt service and retained by GDB for such purposes.

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

Year ending June 30,	Principal	Interest
2007	\$ 25,060,000	\$ 19,045,916
2008	26,755,000	17,659,549
2009	28,550,000	16,215,727
2010	28,780,000	14,692,087
2011	30,140,000	13,096,119
2012 – 2016	130,330,000	42,301,255
2017 – 2021	56,055,000	15,583,916
2022 – 2026	39,045,000	5,094,887
2027 – 2028	2,360,000	60,175
Total	<u>\$ 367,075,000</u>	<u>\$ 143,749,631</u>

C. Mortgage Payable

The mortgage loan payable to the federal government bears interest at 8.5% and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Aggregate annual maturities of the mortgage payable are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 242,817	\$ 439,885
2008	264,279	418,422
2009	287,639	395,062
2010	313,065	369,637
2011	340,736	341,965
2012 – 2016	2,212,348	1,201,158
2017 – 2019	1,623,820	196,698
Total	<u>\$ 5,284,704</u>	<u>\$ 3,362,827</u>

D. Notes Payable

During November 2004, the Municipality issued a special obligation refunding note with a commercial bank for approximately \$40 million to refinance certain notes payable to GDB. The note bears interest at 90-day London Interbank Offering Rate ("LIBOR") plus 1.25% (6.00% at June 30, 2006) and is payable semi-annually, and matures at various dates through July 1, 2029. The note will be repaid through withholdings of property tax advances by CRIM.

During May 2005, the Municipality issued a note payable to GDB for approximately \$17.3 million. The note is payable in annual installments ranging from \$1.4 to \$2.1 million through July 2014 and bears interest at 1.25% over 90-day LIBOR with a minimum of 5% and maximum of 12% (6.25% at June 30, 2006). The proceeds of the note were used principally to pay debt incurred in prior years.

During June 2006, the Municipality issued a note payable for \$31.4 million. The note is payable in annual installments through July 2030 ranging from \$0.5 to \$2.4 million and will bear interest at 90-day LIBOR plus 1.25 percent (6.25% at June 30, 2006).

In addition, the Municipality entered into a loan agreement with the US Department of Housing and Urban Development under a Variable Rate Note guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended. The note was issued to finance the future acquisition and construction of major capital facilities, and allows borrowings up to a maximum of \$72,515,000. There were no borrowings made during fiscal year 2006. The borrowings are payable in annual installments, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (5.36% at June 30, 2006).

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

The notes are payable as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 5,604,063	\$ 7,949,711
2008	5,918,007	7,712,972
2009	6,239,789	7,447,094
2010	6,584,574	7,153,634
2011	6,957,536	6,833,374
2012 - 2016	36,383,801	28,619,943
2017 - 2021	40,001,921	19,017,886
2022 - 2026	31,667,856	8,143,589
2027 - 2030	17,090,130	1,763,053
Total	<u>\$ 156,447,677</u>	<u>\$ 94,641,256</u>

E. Advances from CRIM

This amount represents the balance owed to CRIM at June 30, 2006, from the excess of property tax advances over actual collections during fiscal years ended June 30, 1992, 1999, 2000 and 2005.

On December 31, 1992, the Municipality entered into a non-interest bearing agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2006, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$5.5 million.

On January 26, 2000, Public Law No. 42 was enacted, which authorized CRIM to obtain a loan of up to \$200 million, to allow for the financing of the debt that the Municipalities of Puerto Rico have with CRIM arising from final settlements of property tax advances versus actual collections for fiscal years 1999 and 2000. 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.

During September 2002, the Municipality entered into a repayment agreement with the GDB and CRIM to repay the remaining \$27.4 million of excess property tax advances from fiscal years 1999 and 2000. The CRIM will retain the principal and interest from the property tax advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance as of June 30, 2006 approximates \$26.0 million. The repayment agreement bears interest at a fixed interest rate of 6.19%.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

During the fiscal year ended June 30, 2005, advances of property taxes exceeded the amounts actually collected by CRIM by approximately \$5.8 million. CRIM will retain such excess from the 2006-2007 property tax advances and the repayment will not bear interest.

During the current fiscal year ended June 30, 2006, advances of property taxes exceeded the amounts actually collected by CRIM by approximately \$687,000. CRIM will retain such excess from the 2007-2008 property tax advances and the repayment will not bear interest.

The advances are payable as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,017,329	\$ 1,602,677
2008	3,897,485	1,576,190
2009	476,181	1,548,040
2010	506,101	1,518,120
2011	537,900	1,486,321
2012 – 2016	3,240,985	6,880,119
2017 – 2021	4,395,420	5,725,684
2022 – 2026	5,961,064	4,160,041
2027 – 2031	8,084,389	2,036,716
2032	1,934,015	90,206
Total	<u>\$ 38,050,869</u>	<u>\$ 26,624,114</u>

F. Obligations Under Capital Leases

The Municipality has entered into various capital lease agreements to finance the acquisition of equipment mainly related to the implementation of information systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. At June 30, 2006, the capitalized asset amounting to approximately \$21.2 million is recognized as equipment in the statement of net assets.

During July 2003, the Municipality entered into a non-revolving line of credit with a commercial bank for \$5.5 million. The line of credit matures in five years and bears interest at a fixed interest rate of 3.85%. Outstanding balance of line of credit amounted to approximately \$3.0 million at June 30, 2006. The proceeds of the line were used for the improvements to the data processing network and for the acquisition of medical equipment.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**
Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2007	\$ 1,307,261
2008	1,191,072
2009	637,752
2010	<u>28,369</u>
Total minimum lease payments	3,164,454
Less amount representing interest (ranging from 1.66% to 7.40%)	<u>148,527</u>
Present value of minimum lease payments	<u>\$ 3,015,927</u>

G. Compensated Absences

The government-wide statement of net assets includes approximately \$25.2 million, \$10.3 million and \$2.7 million of accrued vacation benefits, accrued sick leave benefits and payroll related benefits, respectively, representing the Municipality's commitment to fund such costs from future operations.

H. Landfill Obligation

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality's landfill facilities were closed. Based on current costs, the preliminary annual estimate of postclosure costs has been assessed to be approximately \$800,000 for a period of approximately 24 years. The balance of postclosure costs of \$19.2 million is reported in the statement of net assets. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

10. Pension Plan

Employees of the Municipality participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System"). The System is cost-sharing multi-employer defined benefit pension plan sponsored by the Commonwealth of Puerto Rico under the terms of Act No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. The Municipality is required to contribute 9.275% of its employees' gross salaries.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

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 the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Total employee contributions to the above-mentioned plans during the year ended June 30, 2006 amounted to approximately \$11.3 million. The Municipality's contributions during the years ended June 30, 2006, 2005 and 2004 amounted to approximately \$13.0 million, \$13.1 million, and \$11.3 million, respectively. These amounts represented 100% of the required contribution for the corresponding year.

The Municipality follows the provisions of GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which requires employers that participate in cost-sharing multi-employer defined-benefit pension plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.

Additional information on the System is provided in its financial statements for the year ended June 30, 2006, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

11. Other Employee Termination Benefit

The Municipality offered a termination benefit for a voluntary incentive retirement program in accordance to Ordinances No. 105 and 106, Series 2005-2006. This termination benefit was not available to all employees and they should presented resignation for retirement on or before May 31, 2006 with an effective date of August 31, 2006. The termination benefit permits, to all employees that meet the requirements of the System, as described in Note 10 of these financial statements, and all employees that are beneficiaries of social security and had at least three years of creditable services in the Municipality, to receive a cash bonus of \$5,000. As of June 30 2006, one hundred fifty seven (157) employees are entitled to receive this termination benefit. Accordingly, a liability of \$785,000 was recognized on the financial statements to record this termination benefit at cost.

12. Risk Management

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

The Municipality maintains a claims-made policy since October 15, 1990 for the purpose of providing professional and patient care liability insurance with liability limits of \$300,000 for each medical incident and \$2 million for aggregate incidents. The effective date of the policy is from January 24, 2006, through January 24, 2007. The Municipality also obtained tail insurance coverage for incidents incurred but not reported prior to October 14, 1990.

13. Commitments

A. Operating Leases

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 general fund and in other governmental funds for the year ended June 30, 2006, amounted to approximately \$4.3 million and \$1.9 million, respectively. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not significant.

B. Construction

The Municipality had commitments at June 30, 2006 of approximately \$86.4 million for the construction, improvements, or renovation of several municipal facilities.

C. Electric Energy Infrastructure

Law No. 83 of May 1941, as amended, established that PREPA will pay a contribution to the municipalities equal to 7 percent of PREPA's net income in lieu of taxes. In May 2004, PREPA entered into an agreement to settle balances owed to all municipalities for previous years. As part of this agreement, PREPA paid approximately \$10 million to the Municipality during fiscal year 2004. In addition, PREPA will absorb the cost of approximately \$8.4 million for future electric energy construction of infrastructure assets, as approved by the Municipality through fiscal year 2007.

14. Contingencies

A. Losses

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, including medical malpractice claims from the Municipality's Department of Health.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$5.5 million at June 30, 2006, for anticipated unfavorable judgments. These amounts were included in the financial statements and represent the amounts estimated as probable liabilities, which will require future available financial resources for their payment.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

Notes to Financial Statements - Continued
As of and for the Year Ended June 30, 2006

It is management's opinion, based on the advice of legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality. The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2006, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors.

B. Gains

The Municipality is a plaintiff in a number of lawsuits arising principally from claims against the Commonwealth of Puerto Rico for alleged, among others, non compliance with certain government-mandated transactions and the final settlement of property tax revenues provided by CRIM. Also, the Municipality is a plaintiff on several lawsuits from claims against taxpayers for alleged differences on computation of the municipal license tax.

With respect to pending and threatened litigation, the Municipality has not reported any receivables at June 30, 2006, for anticipated favorable judgments of approximately \$75 million. Although this amount was not included in the financial statements, the amount estimated as a probable receivable would represent future available financial resources for expenditures.

It is management's opinion, based on the advice of legal counsel, that the potential claims against the Commonwealth of Puerto Rico and certain taxpayers will materially improve the financial condition of the Municipality.

15. Subsequent Events

During June 2006, the Municipality approved legislation to impose and collect a special municipal tax for room occupation to hotels' guests in San Juan effective October 16, 2006. The tax consists of a flat amount and is imposed to every San Juan non-resident for the occupancy of a room per day in a hotel located in San Juan.

During June 2006, the Municipality approved legislation to impose and collect within the territorial limits of San Juan a sales and usage tax effective August 1, 2006. The tax consists of one percent (1%) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item.

On November 2, 2006, the Municipality entered into an agreement with the Administrator of the System to establish a voluntary early retirement program whereas those employees with 25 years or more of creditable services as of December 31, 2006; will be entitled to receive 75% of their average salary, as defined. Approximately 900 employees have shown interest in participating in this program.

On December 12, 2006, federal government authorities intervened with the Municipality by exercising a search warrant for seizure of documents related to one of the federal financial assistance programs. It is management's opinion that such action will not have a material effect, if any, on the financial condition of the Municipality.

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MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 155,163,951	\$ 154,259,981	\$ 156,195,488	\$ 1,935,507
Municipal license tax	127,000,000	128,999,970	130,271,088	1,271,118
Licenses, permits and other local taxes	22,354,000	22,354,000	23,859,011	1,505,011
Charges for services	48,698,000	48,698,000	48,110,594	(587,406)
Fines and forfeitures	5,350,000	5,350,000	4,222,898	(1,127,102)
Interest	5,500,000	5,500,000	5,932,657	432,657
Intergovernmental - local	23,327,884	23,327,884	26,337,085	3,009,201
Other	2,506,165	42,765,546	38,858,201	(3,907,345)
Transfer from other fund	-	-	18,775	18,775
Total revenues	<u>389,900,000</u>	<u>431,255,381</u>	<u>433,805,797</u>	<u>2,550,416</u>
EXPENDITURES:				
Current				
General government	99,687,831	99,788,246	100,683,422	(895,176)
Public safety	42,200,000	42,459,976	45,087,253	(2,627,277)
Public works	48,000,000	59,848,603	59,805,892	42,711
Culture and recreation	10,057,000	10,174,987	10,304,919	(129,932)
Health and welfare	167,885,540	195,042,586	194,475,923	566,663
Urban development	6,366,168	7,482,872	6,784,775	698,097
Economic development	10,000,000	10,654,700	9,951,325	703,375
Education	5,703,461	5,803,411	4,895,658	907,753
Total expenditures	<u>389,900,000</u>	<u>431,255,381</u>	<u>431,989,167</u>	<u>(733,786)</u>
EXCESS OF REVENUES OVER EXPENDITURES			<u>\$ 1,816,630</u>	<u>\$ 1,816,630</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 433,805,797
Differences - budget to GAAP				
The proceeds from advances from CRIM are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes				(687,258)
Transfer from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(18,775)
Special general fund revenues				7,835,371
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes				(31,350,000)
The proceeds from the sale of capital assets are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes				(6,021,168)
				<u>\$ 403,563,967</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 431,989,167
Differences - budget to GAAP				
Prior year encumbrances recorded as current year expenditures for GAAP basis				24,295,276
Special general fund expenditures				13,348,657
Current year encumbrances recorded as expenditures for budgetary purposes				(31,423,115)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 438,209,985</u>

The notes to budgetary comparison schedule are an integral part of this schedule.

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 certain appropriations within the budget, known as Mayor's Executive Orders, 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 resolutions at June 30, 2006 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2006.

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MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 Combining Balance Sheet
 Other Governmental Funds
 As of June 30, 2006

	Special Revenue Funds						Capital Project Funds			Total Other Governmental Funds
	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds	Miscellaneous Special Revenues Funds	Comunidad de Retiro	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	
ASSETS										
Cash and cash equivalents	\$ 521	\$ 2,281,868	\$ 820,815	\$ 10,475,538	\$ 1,618,938	\$ 7,154	\$ 4,397,684	\$ 263,509	\$ 6,594,586	\$ 26,460,611
Cash with fiscal agent		1,841,261	-			-			88,391,733	90,232,994
Accounts receivable - intergovernmental	1,647,297		8,789,988	2,490,592	682,348			1,136,274		14,746,499
Accounts receivable - other		5,120	131,050	109,469	33,374	100,379			(76,173)	303,219
Inventories			2,264,146							2,264,146
Restricted assets - cash and cash equivalents						3,791,993				3,791,993
Total assets	\$ 1,647,818	\$ 4,128,249	\$ 12,005,999	\$ 13,075,599	\$ 2,334,660	\$ 3,899,526	\$ 4,397,684	\$ 1,399,783	\$ 94,910,146	\$ 137,799,464
LIABILITIES AND FUND BALANCES (DEFICIT)										
Liabilities:										
Accounts payable and accrued liabilities	\$ 11,468	\$ 763,823	\$ 2,412,379	\$ 1,567,916	\$ 234,506	\$ 618,595	\$ 186,567	\$ 72,487	\$ 13,232,168	\$ 19,099,909
Due to other fund	650,696	1,285,997	3,879,676	2,517,714	3,189,756	-	36,387	86,017	717,130	12,363,373
Deferred revenues	1,015,138	2,415,710	3,625,625	6,918,243	1,771,922	-	-	-	-	15,746,638
Total liabilities	1,677,302	4,465,530	9,917,680	11,003,873	5,196,184	618,595	222,954	158,504	13,949,298	47,209,920
Fund balances (deficit)										
Reserved for inventories			2,264,146							2,264,146
Reserved for capital projects							4,174,730	1,241,279	80,960,848	86,376,857
Unreserved in Special Revenue Funds	(29,484)	(337,281)	(175,827)	2,071,726	(2,861,524)	3,280,931				1,948,541
Total fund balances (deficit)	(29,484)	(337,281)	2,088,319	2,071,726	(2,861,524)	3,280,931	4,174,730	1,241,279	80,960,848	90,589,544
Total liabilities and fund balances (deficit)	\$ 1,647,818	\$ 4,128,249	\$ 12,005,999	\$ 13,075,599	\$ 2,334,660	\$ 3,899,526	\$ 4,397,684	\$ 1,399,783	\$ 94,910,146	\$ 137,799,464

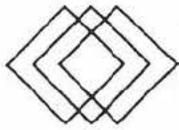
MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
 Other Governmental Funds
 For the Year Ended June 30, 2006

	Special Revenue Funds					Capital Project Funds			Total Other Governmental Funds	
	Department of Justice Fund	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds	Miscellaneous Special Revenues Funds	Comunidad de Retiro	Joint Resolution Funds	Citizen Participation Funds		Various Bond Issue Funds
REVENUES										
Charges for services	\$ -	\$ -	\$ -	\$ 6,000	\$ -	\$ 2,024,866	\$ -	\$ -	\$ -	\$ 2,030,866
Interest	-	-	-	-	-	-	-	-	-	-
Intergovernmental Federal	3,321,880	7,084,056	46,205,983	48,475,325	7,155,909	-	-	-	-	112,243,153
Intergovernmental Local	-	-	-	-	-	-	1,000,138	568,137	6,594,586	8,162,861
Other	-	-	-	12,775	-	-	-	-	-	12,775
Total revenues	<u>3,321,880</u>	<u>7,084,056</u>	<u>46,205,983</u>	<u>48,494,100</u>	<u>7,155,909</u>	<u>2,024,866</u>	<u>1,000,138</u>	<u>568,137</u>	<u>6,594,586</u>	<u>122,449,655</u>
EXPENDITURES										
Current										
General government	297,906	-	5,832,096	438,934	-	-	44,270	-	698,676	7,311,882
Public safety	2,517,016	604,278	-	349,728	484,573	-	89,928	-	535,841	4,581,364
Public works	-	-	-	-	-	-	6,000	-	2,211,751	2,217,751
Culture and recreation	-	-	-	902,300	-	-	101,223	-	1,095,924	2,099,447
Health and welfare	506,958	4,798	40,373,887	3,789,104	3,001,150	-	291,550	101,005	1,919,279	49,987,731
Urban development	-	-	-	37,209,106	52,400	1,545,936	26,540	-	2,664,984	41,498,966
Economic development	-	6,383,397	-	3,419,717	-	-	-	-	517,733	10,320,847
Education	-	91,583	-	-	3,102,105	-	-	-	2,205	3,195,893
Capital outlays	-	-	-	604,909	41,391	134,850	-	-	11,619,021	12,400,171
Debt service										
Principal	-	-	-	-	-	223,097	-	-	-	223,097
Interest and other charges	-	-	-	1,761,527	-	459,604	-	-	-	2,221,131
Total expenditures	<u>3,321,880</u>	<u>7,084,056</u>	<u>46,205,983</u>	<u>48,475,325</u>	<u>6,681,619</u>	<u>2,363,487</u>	<u>559,511</u>	<u>101,005</u>	<u>21,265,414</u>	<u>136,058,280</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	18,775	474,290	(338,621)	440,627	467,132	(14,670,828)	(13,608,625)
OTHER FINANCING SOURCES:										
Transfer in	-	-	-	-	-	-	-	-	-	-
Bonds issued	-	-	-	-	-	-	-	-	24,655,000	24,655,000
Note payable issued	-	-	-	-	-	-	-	-	-	-
Advances from CRIM	-	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Transfer out	-	-	-	(18,775)	-	-	-	-	-	(18,775)
Total other financing sources	-	-	-	(18,775)	-	-	-	-	24,655,000	24,636,225
NET CHANGES IN FUND BALANCES (DEFICIT)	-	-	-	-	474,290	(338,621)	440,627	467,132	9,984,172	11,027,600
FUND BALANCES (DEFICIT), BEGINNING YEAR	(29,484)	(337,281)	2,088,319	2,071,726	(3,335,814)	3,619,552	3,734,103	774,147	70,976,676	79,561,944
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (29,484)</u>	<u>\$ (337,281)</u>	<u>\$ 2,088,319</u>	<u>\$ 2,071,726</u>	<u>\$ (2,861,524)</u>	<u>\$ 3,280,931</u>	<u>\$ 4,174,730</u>	<u>\$ 1,241,279</u>	<u>\$ 80,960,848</u>	<u>\$ 90,589,544</u>

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART II

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON A AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



**INDEPENDENT AUDITORS' 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**

The Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 21, 2006, except for the last paragraph of Note 15 as to which the date is December 12, 2006. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Comunidad del Retiro, as described in our report on the Municipality's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-01 to 06-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-01, 06-04, and 06-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Municipal Legislature, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 21, 2006, except for the last paragraph of Note 15 as to which the date is December 12, 2006

Aguino, De Cordova, Alfaro & Co., LLP

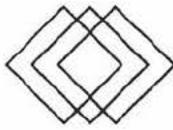
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**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART III

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



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

The Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

Compliance

We have audited the compliance of the Municipality of San Juan, Puerto Rico (the "Municipality"), with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit. Other auditors audited the financial statements of Comunidad del Retiro, as described in our report on the Municipality's financial statements. This report does not include the results of the other auditors testing of compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 that are reported separately by those auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

The Municipality did not comply with the following requirements:

<u>Compliance Requirement</u>	<u>CFDA #</u>	<u>Major Program</u>	<u>Reference Number</u>
Allowable Costs/Cost Principles	14 871	Section 8 Housing Choice Vouchers	06-07
	14.241	Housing Opportunities for Persons with AIDS	06-25
	93 914	HIV Emergency Relief Projects Grants	06-27
Cash Management	93.569	Community Service Block Grant	06-29
Davis-Bacon Act	14 248	Community Development Block Grant/Loan Guarantee Section 108	06-26
Eligibility	14 871	Section 8 Housing Choice Vouchers	06-08, 06-09
	14 856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	06-15, 06-16
	14 241	Housing Opportunities for Persons with AIDS	06-23, 06-24
Earmarking	17.258, 17 259, 17 260	Workforce Investment Act	06-28
Reporting	14.871	Section 8 Housing Choice Vouchers	06-08, 06-14
	14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	06-15, 06-19, 06-20
Subrecipient Monitoring	14 241	Housing Opportunities for Persons with AIDS	06-25
	93 914	HIV Emergency Relief Projects Grants	06-27
Special Tests and Provisions	14 871	Section 8 Housing Choice Vouchers	06-08, 06-10, 06-11, 06-12, 06-13,
	14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	06-15, 06-17, 06-18, 06-21
	14 241	Housing Opportunities for Persons with AIDS	06-22, 06-24

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

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.



Internal Control over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-1 33.

We noted certain matters involving the Municipality's internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-06 to 06-29.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-06, 06-12, 06-13, 06-16 and 06-17 to be material weaknesses.

This report is intended solely for the information and use of the Municipal Legislature, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 23, 2007

Aquino, De Cordova, Alfaro & Co. LLP

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**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPT. OF HEALTH
SAN JUAN, P.R.
MAY 2012

**MUNICIPALITY OF SAN JUAN SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006
PART IV — SUMMARY OF AUDITORS' RESULTS**

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major Federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Municipality's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Section 8 Housing Choice Vouchers	14.871
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Housing Opportunities for Persons with AIDS	14.241
CDBG Loan Guarantee Section 108	14.248
Community Development Block Grants/Entitlement Grants	14.218
HIV Emergency Relief Project Grants	93.914
Workforce Investment Act ("WIA")	17.258, 17.259, 17.260
Head Start	93.600
Community Service Block Grants	93.569

8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Municipality did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED JUNE 30, 2006

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2006
Accounting and Finance Department		
06-01	Deficit in the Municipality's general fund at June 30, 2006	\$ -
06-02	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months	-
06-03	Inactive and unnecessary funds and accounts are not closed.	-
06-04	The Municipality's payroll register cannot be reconciled with its corresponding general ledger payroll and benefits accounts	-
06-05	Internal control over property management need to be strengthened.	-
All federal programs		
06-06	The municipality does not prepare periodic certifications.	-
Section 8 Housing Choice Vouchers		
06-07	The Municipality should improve its collection efforts over its accounts receivable.	-
06-08	The Municipality should improve its internal control over it's Section 8 Housing Choice Voucher Program.	-
06-09	The Municipality must improve policies and procedures for determination of participants eligibility.	-
06-10	The Municipality did not comply with federal requirements regarding the determination of housing assistance payments and lease approval.	-
06-11	The Municipality did not comply with federal requirements regarding the utility allowance schedule.	-
06-12	The Municipality did not comply with federal requirements regarding housing quality standards inspections.	122,136
06-13	The Municipality did not comply with federal requirements regarding housing quality standards enforcements.	14,571
06-14	Financial report submitted to HUD did not agree with the accounting records	-
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation		
06-15	The Municipality should improve its of internal control over its' Lower Income Moderate Rehabilitation Program	-
06-16	The Municipality must improve policies and procedures for determination of participants eligibility.	40,740
06-17	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	16,032
06-18	The Municipality did not comply with federal requirements regarding the utility allowance schedule.	-
	Sub-total	193,479

**MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF FINDINGS AND QUESTIONED COST - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2006**

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2006
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation - continued		
06-19	Financial report submitted to HUD did not agree with the accounting records.	-
06-20	The Municipality did not submit the HUD 40118, Annual Progress Report.	-
06-21	The Municipality does not have adequate internal controls to ensure the current occupancy status of the units receiving program assistance.	-
Housing Opportunities for Persons with AIDS		
06-22	The Municipality must improve its internal control over its Hopwa funds.	-
06-23	The Municipality must improve policies and procedures for determination of participants eligibility.	-
06-24	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	-
06-25	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients' activities.	-
Community Development Block Grant/Loan Guarantee Section 108		
06-26	The construction contracts do not include a Davis Bacon Act clause.	-
HIV Emergency Relief Project Grants		
06-27	The Municipality must improve its subrecipient monitoring procedures.	-
Workforce Investment Act		
06-28	Accounting records do not provide sufficient information to determine compliance with the earmarking requirement.	-
CSBG		
06-29	The Municipality did not comply with federal requirements regarding cash management procedures.	-
Total		<u>\$ 193,479</u>

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART V

**FINDINGS 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**

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

FINDINGS 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 FOR THE YEAR ENDED JUNE 30, 2006

Finding Number 06-01

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality closed its year ended June 30, 2006 with a fund balance deficiency in the general fund of approximately \$31.7 million.

Criteria

In accordance with the Basic Standards Chapter IV, Section 17, the Finance Director has the responsibility of oversight financial operations to prevent deficits in any municipal fund.

Effects

The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

Cause

The above situation is primarily due to the fact that the Municipality in prior years was appropriating expenditures assuming revenues using the estimated tax collection projection provided by the Municipal Revenue Collection Center (the "Center"). Therefore, the Municipality entered into purchases and contracts for a total that exceeds the actual revenues earned and collected in property taxes. The budgeting system did not reflect actual revenues and therefore cannot prevent the obligation of expenditures for which current resources were not available.

Recommendation

The Municipality should continue its efforts by revising and amending the budget as current information related to collections of budgeted revenues becomes available in order to prevent incurring obligations in excess of available resources.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**FINDINGS 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
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number 06-02

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality is not canceling outstanding checks which have been outstanding closed to a period in excess of one year.

Criteria

Chapter IV, Section 11, of the Basic Standards establishes that checks outstanding for more than one year should be canceled. However, municipal checks, depending on the bank account used and nature of payment, there may be cases in which the Municipality issue checks with an expiration date ranging from three months to one year.

Effects

This situation allows for a possible understatement of cash and an overstatement of expenditures and, in the case of Federal Funds, could result in questioned and disallowed costs.

Cause

This is caused by the lack of regular monthly review of bank reconciliations and adequate follow-up on reconciling items.

Recommendation

The Municipality should evaluate the outstanding checklists on a monthly basis, and investigate checks that have not cleared the bank for an unreasonable period of time (i.e. three to six months), contact the payee and determine the underlying reasons as to why these have not been presented to the bank for payment.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACORDANCE WITH GOVERNMENT AUDITING STANDARDS FINDINGS ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO FEDERAL PROGRAMS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number 06-03

Department

Accounting and Finance Department

Category

Internal Control

Condition

Inactive and or unnecessary funds and accounts are not closed. The Municipality is maintaining an excessive number of funds and accounts that have been inactive for a long period. The accounting records include various funds and accounts, many of which have been inactive or had insignificant operations during the year ended June 30, 2006.

Criteria

Article 8.007 (b) of the Municipalities Law establishes that funds should be closed when the fund's objectives have been completed.

Effects

The continued maintenance of these funds and accounts exposes the Municipality to the unauthorized use of funds from inactive accounts for activities not intended to be financed with these funds.

Cause

This situation occurs because the Municipality has not analyzed and closed inactive funds as well as the related bank accounts when the fund's objective have been achieved or are no longer of relevance.

Recommendation

The Municipality should determine whether the intended objectives of these funds were met. The Municipality should close all funds that have complied with the requirements. Remaining balances in those funds should be investigated and properly transferred in accordance with local and Federal regulations.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**FINDINGS 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**

FOR THE YEAR ENDED JUNE 30, 2006

Finding Number 06-04

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality's payroll register cannot be reconciled with the applicable expenditures recorded in the federal program Funds.

Criteria

Article 8.010 (c) of the Municipality's Law states that the accounting system should provide: (a) complete results of the Municipality's operations; (b) proper and necessary financial information for the efficient administration of the Municipality; (c) effective controls and the accountability for all the funds, property and other municipal assets; and (d) necessary information for the preparation of accurate financial reports that could be used in the preparation of the municipal budget.

Effects

The above situation may result in the Municipality not detecting unauthorized payroll payments or payments to employees who are not working or performing duties directly related to the federal programs from which they are being paid. This may expose the Municipality to cost disallowances and actions from the awarding agencies.

Cause

The above situation was the result of the payroll register having different account distributions than the general ledger.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACORDANCE WITH GOVERNMENT AUDITING STANDARDS FINDINGS ON INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO FEDERAL PROGRAMS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006

Recommendation

Being payroll the most significant expenditure of the Municipality, necessary steps to correct this situation should be promptly taken. Consideration should be given to have payroll registers by program generated and reconciled, on a monthly basis, to the corresponding function and general ledger.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**FINDINGS 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
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number 06-05

Department

Property Management

Category

Internal Control

Condition

Internal control over property management needs to be strengthened. The Municipality property records does not allow for them to be reconciled with the general ledger. According to the existing records of the Municipality, the cost of the property owned by the Municipality is approximately \$636.2 million as of June 30, 2006.

Criteria

Article 8.010 (c) of the Municipality's Law states that the accounting system should provide: (a) complete information of the Municipality's operations; (b) proper and necessary financial information for the efficient administration of the Municipality; (c) effective controls and the accountability for all the funds, property and other municipal assets; and (d) necessary information for the preparation of accurate financial reports that could be used in the preparation of the municipal budget.

Chapter VII, Section 22 of the Basic Standards also establishes that property physical inventories should be performed on an annual basis, as part of the overall property management control of the Municipality. Updated inventory lists should be compared and agreed with general ledger, and differences, if any, should be investigated and reconciled.

Effects

There is a significant risk of unauthorized use or disposition because there are no controls to ensure accountability of assets by department/division. This inadequate property control may expose the Municipality to cost disallowances by the federal government for lost or stolen federal property acquired with federal funds.

Cause

The Property Division has not enforced the requirement for the departments that property inventory performed should ensure the proper accountability of assets.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**FINDINGS 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
FOR THE YEAR ENDED JUNE 30, 2006**

Recommendation

A physical inventory of the Municipality's property should be performed as soon as possible for all departments and all differences should be investigated, adjusted and reconciled with the property recorded on the subsidiary ledgers. Federal regulations regarding disposition of property acquired with federal funds should be followed for property items which are not located as a result of such inventory.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART VI

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

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

**FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number 06-06

Federal program

All federal programs

Category

Compliance/Internal Control

Compliance requirement

Allowable costs

Condition

The Municipality does not prepare periodic employee certifications for employees paid with federal funds to ensure that these employees are working and performing duties directly related to the Federal programs from which they are being paid.

Criteria

OMB Circular A-87, Attachment B, section 8(h)(3) establishes that charges for salaries and wages of employees that work solely on a single federal award or cost objective, must be supported by periodic certifications stating that the employees worked solely on that particular Federal program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first knowledge of the work performed by the employee.

Effects

Lack of controls over the time charges of personnel that are working on Federal programs could result in payments to employees who are not working or performing duties directly related to the Federal programs from which they are being paid.

Cause

The Municipality's management has not implemented proper control activities to ensure that the required certifications are obtained from employees and included in the respective human resource records.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006**

Questioned Costs

None

Recommendation

The Municipality's management should revise its internal control procedures to include obtaining periodic employee certifications that employees worked solely on a particular Federal program. For employees that work on several financial assistance programs, certifications as to what programs they work for, should be obtained and their salaries allocated accordingly. Concurrently, a formal policy should be established by the Human Resources Department to track any changes in the tasks performed by employees and process the necessary adjustments to the employee's payroll on a timely basis.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number 06-07

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance/Internal Control

Compliance requirements

Allowable costs/cost principles

Condition

The Municipality has not collected its accounts receivable from participants. The program has paid rental subsidies to owners on behalf of the participants that are in excess of the amounts they are entitled to receive, principally as a result of inaccurate information submitted by the participants, which was used to compute the housing assistance payment, resulting in unallowable costs.

Criteria

24 CFR 570.200 and OMB Circular A-87 establish the various allowable activities to be financed with federal funds.

24 CFR 792 also encourages public housing agencies ("PHAs") to investigate and pursue instances of tenant and owner fraud and abuse in the operation of the Section 8 housing assistance payments program.

Effects

The continued failure to collect the amounts owed by the participants may expose the Municipality to the possibility of being assessed penalties and interest costs on such amounts.

Cause

The above situation is the result of a lack of follow-up procedures and/or collection efforts that should be strengthened by the Municipality.

Questioned Costs

None, as these funds were questioned by previous auditors in the 2004 report.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006**

Recommendation

The Municipality should continue with the process to collect the amounts owed. Such process should be in accordance with the program's laws and regulations.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number 06-08

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Internal Control

Compliance requirements

Participant's eligibility

Financial reporting

Special tests and provisions - Utility allowance schedules

Special tests and provisions - Housing quality standards inspections

Special tests and provisions - Housing assistance payments

Special tests and provisions - Housing quality standards enforcements

Condition

The Municipality of San Juan does not have adequate internal controls over the following compliance requirements: participant's eligibility, financial reporting, utility allowance schedules, housing quality standards inspections and enforcements, and housing assistance payments.

In testing compliance and internal controls over compliance for Section 8 Housing Choice Voucher Program we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 06-09 to 06-14.

Criteria

The A-102 Common Rule and OMB Circular A-110 require non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effects

The continued occurrence of this situation may result in the Municipality to be exposed to cost disallowances.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006**

Cause

Although the Municipality's Administrative Plan for the Section 8 program covers policies and procedures that should be followed for each of the requirements described above, these policies are not always being followed. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the adequate policies and procedures are not being followed.

Questioned Costs

None

Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses on their design. A continued education program and or adequate segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program regulations. Supervisory roles should also be strengthened to verify the effectiveness of the internal controls.

Views of Responsible Officials

Management agrees.

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Finding Number 06-09

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance / Internal Control

Compliance requirements

Eligibility

Condition

The Municipality must improve policies and procedures for determination of participant's eligibility.

In testing compliance and internal control over compliance with the requirement of participant's eligibility, we selected 42 participants who received HAP during FY 2005-06 to ascertain whether participants receiving HAP were eligible to participate in the program.

We noted the following instances of noncompliance and internal control deficiencies:

Annual reexamination procedures

- For 3 of the 42 participants (7%), had missing information on the participants' files. The following information was not included in the files: (a) missing documentation to support annual income, such as welfare and unemployment certifications; and (b) inadequate documentation to support annual income. A case may have had more than one exception. Inadequate documentation was noted on unemployed applicants, for which a sworn statement signed by the participant declaring that no income was received during the base period was the only document to support the applicant's income. However, no external documentation (i.e. income tax returns, etc.) was requested in order to corroborate the participant's assertion.
- In 9 cases (21%) the participant's file did not include the participant's agreement for the annual reexamination.

Criteria

Participant records. 24 CFR 982.158 requires a PHA to 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.

Participant application procedures. 24 CFR 982.158 requires the PHA to maintain during the term of each assisted lease, and for at least three years thereafter, the application from the family.

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To be income-eligible, the Municipality has established in its administrative plan that based on the applicant's family adjusted income, only "extremely low income" families, as defined in 24 CFR 5.603, are eligible to participate in the program. Per 24 CFR 982.516, in the determination of adjusted income for an applicant, the PHA must obtain and document in the tenant file, third party verification of the following factors, or must document in the tenant file why third party verification was not available: (a) reported family annual income; (b) the value of assets; (c) expenses related to deductions from annual income; and (d) other factors that affect the determination of adjusted income. The PHA must establish procedures that are appropriate and necessary to assure that income data provided by applicant or participant families is complete and accurate. The procedures established in the Municipality's administrative plan require the verification of information submitted by the applicant through four methods of verification in the following order: (a) third party written; (b) third party oral; (c) review of documents; and (d) certification/self-declaration. If third-party written or oral verification is not available, or the information has not been verified by the third party within two weeks, the PHA should locate the file accordingly and utilize documents provided by the family as the primary source if the documents provide complete information.

Annual reexamination procedures. 24 CFR 982.516 requires a PHA to conduct a reexamination of family income and composition at least annually. The Municipality's policies and procedures to comply with this requirement include that participants must sign, during the admission process, a form acknowledging of this requirement.

Effects

The continued occurrence of this situation may cause the Municipality admitting ineligible participants to receive program benefits and, therefore, be exposed to cost disallowances.

Cause

All of the above matters occurred because the Municipality's internal control over this compliance requirement is not effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as for their accuracy.

Questioned Costs

None

Recommendation

A complete and thorough analysis over the Municipality's procedures for participant's determination of eligibility should be made. The Municipality should ensure that all applicable requirements are being considered as part of these procedures and should also consider the development of a checklist that includes all the related documents and procedures that must be obtained and completed to determine eligibility for each participant. The checklist should be completed during the initial processing and should be revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures should improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Views of Responsible Officials

Management agrees.

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Finding Number 06-10

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance / Internal Control

Compliance requirements

Special tests and provisions - Housing assistance payments

Condition

The Municipality did not comply with federal requirements regarding the determination of housing assistance payments and lease approval.

In testing compliance and internal control over compliance with the requirements of participant's eligibility, reasonable rent, and housing assistance payments ("HAP"), we selected 42 participants who received HAP during fiscal year 2005-06 to ascertain that participants receiving HAP were eligible to participate in the program and that HAP payments were reasonable and computed correctly.

We noted the following instances of noncompliance and internal control deficiencies:

- For eight of the 42 participants (19%), the Municipality paid housing assistance payments although the related lease agreements were expired. The lease agreements of the Municipality are for a period of one year, however, they can be renewed automatically on a month to month basis, but no more than a period of three (3) years.
- For six cases (14%) the participant's file did not include properly completed lease agreement.

Criteria

24 CFR 982.505 addresses the calculation of housing assistance payment. A payment standard is used to calculate the monthly housing assistance payment for a family. The "payment standard" is the maximum monthly subsidy payment. The PHA shall pay a monthly housing assistance payment on behalf of the family that is equal to the lower of: (a) The payment standard for the family minus the total tenant payment; or (b) the gross rent (sum of the contract rent plus any utility allowance for the unit size leased) minus the total tenant payment. The payment standard for the family is the lower of: (a) the payment standard amount for the family unit size; or (b) the payment standard amount for the size of the dwelling unit rented by the family.

24 CFR 982.503 states that the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent ("FMR") area in the PHA jurisdiction. For each FMR area, the PHA must establish payment standard amounts for each "unit size". Unit size is measured by number of bedrooms.

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Total tenant payment is defined by 24 CFR 5.628 as the highest of the following amounts, rounded to the nearest dollar: (a) 30 percent of the family's monthly adjusted income; (b) 10 percent of the family's monthly income; (c) if the family is receiving payments for welfare assistance from a public agency and a part of those payments, adjusted in accordance with the family's actual housing costs, is specifically designated by such agency to meet the family's housing costs, the portion of those payments which is so designated; or (d) the minimum rent, as determined in accordance with 24 CFR 5.630.

24 CFR 982.308(b) establishes that the term of the HAP contract begins on the first day of the lease term and ends on the last day of the lease term. 24 CFR 982.311 establishes that the housing assistance payments terminate if the lease terminate.

24 CFR 982.158 also requires the PHA to maintain during the term of each assisted lease, and for at least three years thereafter, a copy of the executed lease. These records should be complete and accurate.

Effects

The continued occurrence of this situation may result in the Municipality making housing assistance overpayments, and therefore be exposed to cost disallowances.

Cause

All of the above matters occurred because the Municipality's internal control over these compliance requirements are not effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as to their accuracy. The Municipality is also not verifying and amending unit lease contracts during the annual reexamination process of participants.

Questioned Costs

None

Recommendation

A complete and thorough analysis over the Municipality's procedures for determination of HAP calculations should be made. HAP calculations should be reviewed by a supervisor to determine that it was properly calculated and that factors used in their calculation, such as applicant's income and unit size, are both accurate and complete.

The Municipality should also verify all participants with expired housing unit lease agreements, and amend the contracts in order to cover the period until the next reexamination. Additionally, the Municipality should implement internal controls to verify that housing units lease agreements are valid until the next reexamination date.

Views of Responsible Officials

Management agrees.

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Finding Number 06-11

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance

Compliance requirements

Special tests and provisions — Utility allowance schedule

Condition

The Municipality did not comply with federal requirements regarding the utility allowance schedule.

An analysis over utility allowances has not been made since 2001. Even though the schedule effective for FY 2005-06 was issued in October 2005, the rates included in said schedule were not determined in accordance with federal regulations as no evidence exists to support them.

We also noted during our tests over the participant's eligibility requirements that the utility allowances balances used by the Municipality are not consistent with the utility allowance schedules in effect.

Criteria

24 CFR 982.517 establishes that the Municipality must maintain a utility allowance schedule for all tenant-paid utilities (except telephone), for cost of tenant-supplied refrigerators and ranges, and for other tenant-paid housing services. The Utility allowance schedule must be determined based on the typical cost of utilities and services paid by energy conservative households that occupy housing of similar size and type in the same locality. In developing the schedule, the Municipality must use normal patterns of consumption for the community as a whole and current utility rate.

This schedule must be reviewed each year, and the Municipality must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the schedule was revised. The Municipality must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Effects

The use of outdated utility allowance schedules may result in the granting of housing assistance payments to program participants for an incorrect amount.

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Cause

The Municipality does not have adequate controls to ensure compliance with federal regulations regarding the utility allowance schedule due to lack of understanding over the applicable regulations.

Questioned Costs

None.

Recommendation

The Municipality should review and update its utility allowance schedule using the most recent information available. Prospectively, annual revisions to the allowance should be performed and documented in accordance with federal regulations.

Views of Responsible Officials

Management agrees.

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Finding Number 06-12

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance

Compliance requirements

Special tests and provisions — Housing quality standards inspections

Condition

Housing quality standards ("HQS") inspections:

In testing compliance and internal control over compliance with the HQS inspections, we selected 30 units for which an annual reinspection was due during the fiscal year 2005-06.

For 17 of the 30 units selected (57%), we were unable to determine compliance with the abovementioned requirements as the Municipality could not provide us with the inspection document. Total HAP made to these participants during FY 2005-06 amounted to \$82,620.

In addition, as part of our procedures for testing compliance and internal control over compliance with the participant's eligibility requirement, we selected 42 participants and noted that for eight cases (19%) the Municipality did not comply with HQS as they were either not inspected or the inspection was failed. Total HAP payments made amounted to \$39,516.

Criteria

24 CFR 982.404 to 405 requires a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4.

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

Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the Section 8 program.

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Cause

The Municipality does not have adequate internal controls to ensure that HQS inspections procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).
- The number of employees working with the inspections appears to be inadequate considering the volume of units administered by the program. The Municipality has only three inspectors for approximately 4,000 units under the program.

Questioned Costs

\$122,136

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees.

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Finding Number 06-13

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance

Compliance requirements

Special tests and provisions — Housing quality standards enforcement

Condition

HQS enforcement:

In testing compliance and internal control over compliance with the enforcement of HQS, we selected 25 inspections made during the fiscal year 2005-06 which failed to comply with HQS in order to determine whether the Municipality enforced compliance with HQS within the required timeframe. For seventeen (17) of the 30 inspections selected for testing (57%), we were unable to determine compliance with the abovementioned requirements as the Municipality could not provide us with the participant's file. Total HAPs made to these participants during FY 2005-06 amounted to \$82,620.

For the remaining 9 inspections examined, we noted the following instances of noncompliance:

- For four (4) of these 9 inspections (44%), the Municipality did not perform a subsequent inspection to verify if the owner corrected the deficiencies previously notified. Total HAPs made during FY 2005-06 for units that failed to meet HQS, after failed inspection date, amounted to \$2,487.

In addition, as part of our procedures for testing compliance and internal control over compliance with the participant's eligibility requirement, we selected 42 participants and noted that for two cases (5%) the Municipality did not comply with HQS enforcement procedures. Total HAP payments made amounted to \$12,084.

Criteria

24 CFR 982.404 to 405 requires a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4. If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous actions to enforce the owner's obligations.

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

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Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the Section 8 program.

Cause

The Municipality does not have adequate internal controls to ensure that quality control, and enforcement procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).
- The number of employees working with the inspections appears to be inadequate considering the volume of units administered by the program. The Municipality has only three inspectors for approximately 4,000 units under the program.

Questioned Costs

\$14,571

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections, quality control, and enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees.

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Finding Number 06-14

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance

Compliance requirements

Reporting — Financial Reporting

Condition

The Municipality is required to submit to HUD on a quarterly basis the Form HUD-52861, *Voucher for Payment of Annual Contributions and Operating Statement*. During our procedures over the correctness of the information provided in said report, we noted that the financial data submitted did not agree with the financial records of the Municipality as follows:

<u>Expenditures per report</u>	<u>Expenditures per General Ledger</u>	<u>Difference</u>
\$ 23,119,447	\$ 22,065,168	\$ 1,054,279

Criteria

HUD regulations require PHAs to submit form HUD-52681 to the HUD Financial Management Center. Among the information required to be presented on this form, the PHA must report the operating income, operating expenditures, and operating reserve of the PHA for the reporting period.

Effects

Failure to report accurate information prevents HUD from monitoring the performance of the program's financial activities, assessing the achievements of those programs and evaluating the expected grant award for the following years.

Cause

The Municipality does not have adequate internal controls in order to ensure that financial data used in reports submitted to federal awarding agencies is accurate.

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Questioned Costs

None

Recommendation

The Municipality should design procedures to ensure that reports submitted to federal awarding agencies are both complete and accurate.

Views of Responsible Officials

Management agrees.

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Finding Number 06-15

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Internal Control

Compliance requirements

Participant's eligibility

Financial reporting

Specials tests and provisions - utility allowance schedules

Specials tests and provisions - housing quality standards inspections

Specials tests and provisions - housing assistance payments

Specials tests and provisions - housing quality standards enforcements

Condition

The Municipality does not have adequate internal controls over the following compliance requirements: participant's eligibility, financial reporting, utility allowance schedules, housing quality standards inspections and enforcements, and housing assistance payments. In testing compliance and internal control over compliance for the Lower Income Housing Assistance Program we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 06-16 to 06-21.

Criteria

The A-102 Common Rule and OMB Circular A-110 require non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances.

Cause

Although the Municipality's Administrative Plan for the Lower Income Moderate Housing Assistance — Section 8 Moderate Rehabilitation program covers policies and procedures that should be followed for each of the requirements described above, these policies and procedures are not always followed. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the existing policies and procedures are not being followed.

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Questioned Costs

None

Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses on their design. A continued education program and an adequate segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program's regulations. Supervisory roles should also be strengthened to verify the effectiveness of the internal controls.

Views of Responsible Officials

Management agrees.

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Finding Number 06-16

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance / Internal Control

Compliance requirements

Eligibility

Condition

The Municipality must improve policies and procedures for determination of participant's eligibility.

In testing compliance and internal control over compliance with the requirement of participant's eligibility, reasonable rent, and housing assistance payments ("HAP"), we selected 25 participants who received HAP during fiscal year 2005-06 to ascertain whether participants receiving HAP were eligible to participate in the program and that HAP payments were reasonable and computed correctly.

For the 25 participants tested, we noted the following instances of noncompliance and internal control deficiencies:

- Three (3) of the 25 participants files selected (12%) were not eligible to participate of the program since they did not include the family member's consent forms or federal release form authorizing the Municipality to examine documents to corroborate their status and income.
- For three (3) of the 25 participants (12%), eligibility could not be determined due to missing information on participant's files. The following information was not included in the files: (a) evidence of US citizenship such as birth certificates or social security cards (1 case); and (b) no documentation from PHA official to support annual income, (2 case). A case may have had more than one exception. Total HAP made to these participants during FY 2005-06 amounted to \$13,452.
- *Participant application procedures.* For eight (8) out of the 25 participants selected (32%), either the application form was not included in the participant's file (4 cases), or was not signed by the applicant (4 cases). Total HAP payments made to these participants during fiscal year 2005-2006 amounted to \$27,288.

Other exceptions noted follows:

- *Annual reexamination procedures.* In three cases (12%) the annual reexamination was not performed when due.

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Criteria

Documentation and examination of participants' eligibility. 24 CFR 882.514 states that the PHA is responsible for the receipt and review of applications, and determination of family eligibility for participation in accordance with HUD regulations. To be eligible, the applicant must be a citizen or a noncitizen whom has eligible immigration status, and must be income-eligible.

In order to assert citizenship status, 24 CFR 5.216 and 5.218 and 24 CFR 882.515 requires each assistance applicant to submit a valid social security card issued by the SSA. The PHA must deny the eligibility of an assistance applicant or participant, if they do not meet the applicable social security disclosure, documentation and verification, and certification requirements described above.

To be income-eligible, the applicant's family should be considered low-income, as defined in 24 CFR 5.603. In order to determine the income eligibility, 24 CFR 882.514 establishes that the PHA is responsible for verifying the sources and amount of the family's income and other information necessary for determining income eligibility and the amount of the assistance payment. 24 CFR 5.232 also provides that if the applicant or participant, or any member of the applicant's or participant's family, does not sign and submit a consent form authorizing any depository or private source of income, or any Federal, State or local agency, to furnish or release to the PHA or HUD such information as the PHA or HUD determines to be necessary, then: (a) the processing entity shall deny assistance to and admission of an applicant; or (2) assistance to, and the tenancy of, a participant may be terminated.

24 CFR 882.518 also covers situations in which the PHA must prohibit admission to the program to certain criminal offenders. The Municipality's policies and procedures in place to ascertain that no criminal offenders covered by this section are improperly admitted to the program include the requirement to applicants to submit a certificate of criminal record as part of their eligibility review.

Annual reexamination procedures. 24 CFR 882.515 requires a PHA to conduct a reexamination of family income and composition at least annually. The Municipality's policies and procedures to comply with this requirement include that participants must sign, during the admission process, a form acknowledging of this requirement.

Effects

The continued occurrence of this situation may result in the Municipality admitting ineligible participants to receive program benefits or making housing assistance overpayments and, therefore, be exposed to cost disallowances.

Cause

All of the above matters occurred because the Municipality's internal control over these compliance requirements are not effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as for their accuracy.

Questioned Costs

\$40,740

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Recommendation

A complete and thorough analysis over the Municipality's procedures for participant's determination of eligibility and HAP calculations should be made. The Municipality should ensure that all applicable requirements are being considered as part of these procedures and should also consider the development of a checklist that includes all the related documents and procedures that must be obtained and completed for each participant. The checklist should be completed during the initial processing and should be revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures should improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
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Finding Number 06-17

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Special tests and provisions — Housing quality standards inspections
Special tests and provisions — Housing quality standards enforcement

Condition

Housing quality standards ("HQS") inspections:

In testing compliance and internal control over compliance with the HQS inspections, we selected 25 units for which an annual reinspection was due during the fiscal year 2005-06. During our test we noted instances of noncompliance in 3 of our selections (12%), as follows:

- For three (2) out of the 25 units selected for testing (8%), no inspections were made during the fiscal year 2005-06. Total HAP made to these participants amounted to \$6,396, excluding HAPs already questioned.

HQS enforcement:

As part of our procedures for testing compliance and internal control over compliance with the participant's eligibility requirement, we selected 25 participants and noted that:

- For three (3) of these 25 participants (12%), the inspections failed and the subsequent inspection to verify if the owner corrected the deficiencies previously notified was done after the required timeframe. The PHA identified that the owner failed to correct the deficiencies; however, in none of these cases (100%) the Municipality did not take any actions against these owners. Total HAPs made during FY 2005-06 for units that failing to meet HQS, after failed inspection date, amounted to \$9,636.

Criteria

24 CFR 982.404 and 405 require a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4. If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous actions to enforce the owner obligations.

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

Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the Section 8 Moderate Rehabilitation program.

Cause

The Municipality does not have adequate internal controls to ensure that HQS inspections, and enforcement procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).

Questioned Costs

\$16,032

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections, and enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees.

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Finding Number 06-18

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Special tests and provisions — Utility allowance schedule

Condition

The Municipality did not comply with federal requirements regarding the utility allowance schedule. In testing compliance and internal control over compliance with the utility allowance schedule requirements, we noted that an analysis over utility allowances has not been made since 2001. Even though the schedule effective for FY 2005-06 was issued in October 2005, the rates included in said schedule were not determined in accordance with federal regulations as no evidence exists to support them.

Criteria

24 CFR 882.510 requires a PHA to determine, at least annually, whether an adjustment is required in the utility allowance applicable to the dwelling units in the program, on grounds of changes in utility rates or other change of general applicability to all units in the program. The PHA may also establish a separate schedule of allowances for each building of 20 or more assisted units, based upon at least one year's actual utility consumption data following rehabilitation under the Program. If the PHA determines that an adjustment should be made in its schedule of allowances or if it establishes a separate schedule for a building which will change the allowance, the PHA must then determine the amounts of adjustments to be made in the amount of rent to be paid by affected families and the amount of housing assistance payments and must notify the owners and families accordingly. Any adjustment to the allowance must be implemented no later than the family's next reexamination date or lease renewal date, whichever is earlier.

Effects

The use of outdated utility allowance schedules may result in the granting of housing assistance payments to program participants for an incorrect amount.

Cause

The Municipality does not have adequate controls to ensure compliance with federal regulations regarding the utility allowance schedule due to lack of understanding over the applicable regulations.

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Questioned Costs

None

Recommendation

The Municipality should review and update its utility allowance schedule using the most recent information available. Prospectively, annual revisions to the allowance should be performed and documented in accordance with federal regulations. Provisions should be taken to ensure that utility allowances granted to participants are in accordance with utility schedules in effect at the time of the request.

Views of Responsible Officials

Management agrees.

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Finding Number 06-19

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Reporting — Financial reporting

Condition

Procedures over reconciliation and verification of financial data submitted to the HUD needs to be strengthened.

The Municipality is required to submit to HUD on an annually basis the Form HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement*. During our procedures over the correctness of the information provided in said report, we noted that the financial data submitted did not agree with the financial records of the Municipality as follows:

<u>Expenditures per report</u>	<u>Expenditures per General Ledger</u>	<u>Difference</u>
\$ 3,633,754	\$ 3,523,427	\$ 110,327

Criteria

HUD regulations require PHAs to submit form HUD-52681 to the HUD Financial Management Center. Among the information required to be presented on this form, the PHA must report the operating income, operating expenditures, and operating reserve of the PHA for the reporting period.

Effects

Failure to report accurate information prevents HUD from monitoring the performance of the program's financial activities, assessing the achievements of those programs and evaluating the expected grant award for the following years.

Cause

The Municipality does not have adequate internal controls in order to ensure that financial data used in reports submitted to federal awarding agencies is accurate.

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Questioned Costs

None.

Recommendation

The Municipality should design procedures to ensure that reports submitted to federal awarding agencies are both complete and accurate.

Views of Responsible Officials

Management agrees.

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Finding Number 06-20

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Reporting — Financial reporting

Condition

The Municipality did not submit during FY 2005-06 the Form HUD-40118, *Annual Progress Report ("APR")* for the Moderate Rehabilitation Single Room Occupancy projects.

Criteria

HUD regulations require PHAs to submit form HUD-40118 to the HUD within 90 days after the end of each operating year.

Effects

Failure to submit an APR may delay receiving grant funds and may result in a determination of lack of capacity for future funding.

Cause

Due to lack of personnel, this report has not been prepared and submitted to the HUD. Limited resources available have been used primarily for the operations of other types of assistance received from the Moderate Rehabilitation program.

Questioned Costs

None.

Recommendation

Form HUD-40118 should be prepared immediately and submitted to the HUD.

Views of Responsible Officials

Management agrees.

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Finding Number 06-21

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Internal control

Compliance requirements

Special tests and provisions — Vacant units

Condition

The Municipality does not have adequate internal controls to ensure the current occupancy status of the units receiving program assistance. No policies and procedures are in place to detect units vacated and not notified to the Municipality.

Criteria

24 CFR 882.411 states that if an eligible family vacates its unit, the owner of the unit may receive HAP due under their contract for the month in which unit becomes vacant and 80% of the contract rent for an additional month, as long as the unit remains vacant. However, if the owner does not notify the PHA immediately of the vacancy, then the owner is not entitled to any payment.

Effects

Unallowable payments may be disbursed for units which are not being occupied by eligible families.

Cause

Due to lack of personnel, the Municipality has emphasized the use of their resources in other areas that they consider to be of more priority.

Questioned Costs

None

Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses in their design. Responsibilities assigned to current personnel should be evaluated and more personnel should be assigned to this program in order to comply with federal requirements, as deemed necessary. Supervisory roles should be strengthened to verify the effectiveness of the internal controls.

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Views of Responsible Officials

Management agrees.

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Finding Number 06-22

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Internal Control

Compliance requirements

Participant's eligibility
Sub-recipient monitoring
Special Test: - Housing quality inspections

Condition

The Municipality of San Juan must improve its internal controls over the following compliance requirements: participant's eligibility, subrecipient monitoring and housing quality inspections.

In testing compliance and internal controls over compliance for Housing Opportunities for Persons with Aids programs we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 06-25 to 06-28.

Criteria

The A-102 Common Rule and OMB Circular A-110 require non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances.

Cause

Although the Municipality's Administrative Plan for the HOPWA program covers policies and procedures that should be followed for each of the requirements described above, these policies are not always being followed. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the adequate policies and procedures are not being followed.

Questioned Costs

None

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Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses on their design. A continued education program and or adequate segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program regulations. Supervisory roles should also be strengthened to verify the effectiveness of the internal controls.

Views of Responsible Officials

Management agrees.

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Finding Number 06-23

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Compliance / Internal Control

Compliance requirements

Eligibility

Condition

The Municipality must improve its internal controls over Hopwa funds.

In testing compliance and internal control over compliance with the requirement of participant's eligibility, we selected 25 participants who received HAP during FY 2005-06 to ascertain whether participants receiving HAP were eligible to participate in the program.

For 3 of the 25 participants selected (10%), we were unable to determine compliance with the abovementioned requirements as the Municipality could not provide us with the privacy act form.

Effects

The continued occurrence of this situation may result in the Municipality admitting ineligible participants to receive program benefits and, therefore, be exposed to cost disallowances.

Cause

The matters occurred because the Municipality's internal control over this compliance requirement is not effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as for their accuracy.

Questioned Costs

None

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Recommendation

A complete and thorough analysis over the Municipality's procedures for participant's determination of eligibility should be made. The Municipality should ensure that all applicable requirements are being considered as part of these procedures and should also consider the development of a checklist that includes all the related documents and procedures that must be obtained and completed to determine eligibility for each participant. The checklist should be completed during the initial processing and should be revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures should improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Views of Responsible Officials

Management agrees.

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Finding Number 06-24

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Compliance

Compliance requirements

Special tests and provisions — housing quality standards inspections

Condition

Housing quality standards ("HQS") inspections:

In testing compliance and internal control over compliance with the HQS inspections, we selected 25 units for which an annual reinspection was due during the fiscal year 2005-06. During our test we noted instances of noncompliance in 4 of our selections (16%), as follows:

- For four (4) out of the 25 units selected for testing (16%), the inspections failed and reinspections were done after the required timeframe.

Criteria

24 CFR 982.404 and 405 require a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4. If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous actions to enforce the owner obligations.

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

Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the program.

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Cause

The Municipality does not have adequate internal controls to ensure that HQS inspections, quality control, and enforcement procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).

Questioned Costs

None

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections and enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees

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Finding Number 06-25

Federal program

Housing Opportunity for Persons with AIDS, CFDA # 14.241

Category

Compliance / Internal Control

Compliance requirements

Allowable costs
Subrecipient monitoring

Condition

During our tests on compliance and internal controls over compliance with the subrecipients' monitoring requirement, we selected 16 subgrantees and noted the following deficiencies:

Awarding of funds

- One subrecipient was approved assistance during the fiscal year 2005-06 although he had not complied with the submission of single audit reports for prior award years.

Monitoring of funds

- For twenty (21) of the 26 subrecipients examined (81%), we were not provided with evidence of the agreement between the Municipality and the subgrantee. No evidence was provided that the Municipality made these subrecipients aware of the award information and requirements pertaining to the program.
- For 26 of the 26 subrecipients examined (100%), no documentation could be provided with regards to the monitoring procedures performed by the Municipality.
- For of the 21 subrecipients examined (100%), no formal evidence exists of the review performed over single audit reports received and that such review was made within six months of their receipt, as required by Federal regulations. Total funds awarded to these subrecipients amounted to \$ 1,596,437.
- Latest single audit reports on file for 20 subrecipients reflected reportable conditions, material weaknesses and/or questioned costs. For 10 of these subrecipients (50%), the Municipality has neither received a corrective action plan nor sanctioned them due to noncompliance with this requirement.

Criteria

The requirements for subrecipient monitoring are contained in the Single Audit Act Amendments of 1996, Section .225 and .400(d) of the OMB Circular A-133, and Section .37 and .40(a) of A-102 Common Rule. These regulations establishes a pass-through entity is responsible for:

- *Award Identification.* At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.

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- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipients' fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

In addition, the A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Adequate internal controls should provide reasonable assurance that subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated.

Effects

Inadequate monitoring procedures may expose the Municipality to the risk that unallowable use of funds are not detected and corrected on a timely basis. Noncompliance could result in the loss of Federal funds. Additionally, program objectives may not be achieved, as timely monitoring of subgrantee performance is not adequately performed.

Cause

Although the Municipality's has in place various tools to approve and monitor subgrantees, such as proposals evaluation guides and checklists, and single audit requests forms to subrecipients, their use is not consistent. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the adequate policies and procedures are not being followed.

In addition, during FY 2005-06 personnel previously assigned to the monitoring of HOPWA subrecipients were relocated to other functions. No resources were allocated to HOPWA program to cover these vacancies.

Questioned Costs

None

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Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses in their design. Proper training to employees and established segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program regulations. Supervisory roles should be strengthened to verify the effectiveness of the internal controls. The following guidelines should be considered:

- Single audit reports should be obtained within the required time frame and its corresponding review should be performed and documented on a timely basis. The preparation of a review tool, such as a checklist is advisable. Management decisions resulting from this review should be clearly documented, as well as follow-up activities performed on single audit findings.
- Develop and implement policies to ensure that files are adequate and consistent and to ascertain that they include support for conclusions in monitoring reports. Subrecipient files should also include documentation on follow-up procedures performed on corrective action implementation.
- Develop a tracking system that alerts staff of approaching deadlines for reports and corrective action plans. Follow up aggressively to obtain acceptable corrective action plans in a timely manner. Subrecipient tracking documents should be developed and maintained for management decision and audit purposes.
- Review current monitoring guides to ensure that they include steps to obtain reasonable assurance that the subrecipients are complying with applicable Federal regulations. In addition, the Municipality should assign sufficient resources to enable the performance of adequate monitoring of the subrecipients, specifically for the programmatic area.

Views of Responsible Officials

Management agrees.

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Finding Number 06-26

Federal program

Community Development Block Grant/Loan Guarantee Section 108, CFDA # 14.2

Category

Compliance

Compliance requirements

Davis-Bacon Act

Condition

During our examination of construction contracts we noted that they did not include a clause of the prevailing rate as required.

Criteria

The requirements of Davis Bacon are contained 29 CFR Part 5, A-102 Common Rule and OMB Circular A-110. Non federal entities shall include in their construction contracts subject to Davis Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction").

Effects

The Municipality can be exposed to actions from Federal grantors including disallowance of cost.

Cause

This situation was mostly caused do to the lack of update for applicable clauses on the construction contracts.

Questioned Costs

None

Recommendation

The Municipality contracts include a general clause in which they establish that the contractor should follow all federal and local regulations. We recommend the Municipality to include a more specific clause that construction contractors and subcontractors must comply with the abovementioned requirement.

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Views of Responsible Officials

Management agrees.

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Finding Number 06-27

Federal program

HIV Emergency Relief Project Grants, CFDA # 93.914

Category

Internal Control/Compliance

Compliance requirement

Allowable Cost/Cost Principles
Subrecipient Monitoring

Condition

To reinforce the accuracy of the reimbursement of funds, the Municipality has implemented a detailed preintervention process for its subgrantees disbursements. These procedures include, among others, a detailed examination of invoices provided by the subgrantee with copies of its related supporting documentation; which includes supplier's invoices, bank statements and bank reconciliations. This process is being performed and complied by subgrantees.

As part of the monitoring procedures, the Municipality performed fiscal and programmatic monitoring and we noted the following:

- The Municipality has not performed monitoring of its subrecipients for program year 2005.
- Subrecipient monitories performed for program years 2003 and 2004 resulted in instances of noncompliance. Corrective action plans is in the process of discussion with subrecipients.

In addition, in eligibility of subgrantees we could not test procedures related to the awarding of funds to one subrecipient, because the file was not available for examination.

Criteria

- Section 400 (d) of OMB Circular A-133 establishes that the Municipality should: (a) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (b) ensure that subrecipients expending \$ 300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; (c) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and time corrective action; and (d) consider whether subrecipient audit needs adjustment of the pass-through entity's records.
- In addition, internal controls should provide reasonable assurance that subrecipients activities are monitored, subrecipients audit findings are resolved, and the impact of any subrecipients noncompliance on the pass-through entity is evaluated.

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Effects

Inadequate financial monitoring procedures may expose the Municipality to the risk that unallowable uses of funds are not detected and corrected on a timely basis. Noncompliance could result in the loss of federal funds. Additionally, program objectives may not be achieved, as timely monitoring of subgrantees performance is not adequately performed.

Cause

The above conditions are primarily due to not performing ontime monitoring procedures of subrecipients fiscal operations. Other exceptions are the result of inappropriate follow up procedures on subgrantees compliance with agreement clauses.

Questioned Costs

None

Recommendation

- Assignment of sufficient resources to enable the performance of adequate monitoring of subrecipients.
- Timely site visits at the subrecipients locations to review financial records and observe operations should be performed.

Views of Responsible Officials

Management agrees.

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Finding Number 06-28

Federal program

Workforce Investment Act (WIA) — CFDA # 17.258, # 17.259, # 17.260

Category

Internal Control/Compliance

Compliance requirements

Earmarking

Condition

Internal control over accounting records needs to be strengthened to ensure compliance with the earmarking compliance requirements. During the performance of the audit we noted that:

The Municipality's accounting records are not segregated according to type of activities (i.e. youth activities), which need to be separately identifiable to ensure that the program complied with the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities and, thus, determine compliance with earmarking requirements.

Criteria

OMB Circular A-102 requires grantees to have financial management systems that maintain effective control and accountability for all grants and subgrants 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. An effective internal control system should have a control structure in place in order to provide reasonable assurance that all disbursements paid with Federal funds are made in compliance with the earmarking and period of availability requirements, and that financial reports submitted to federal awarding agencies are accurate and complete.

Effects

Lack of controls over these compliance requirements do not reasonably prevent instances of noncompliance with them, or allows for timely detection and correction of exceptions. The Municipality could be exposed to actions from Federal grantors, including disallowance of costs.

Cause

These situations are mostly caused due to the lack of segregation of the accounting records.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006

Questioned Costs

None

Recommendation

The Municipality should ensure that accounts used for recording expenditures of federal programs are adequate for segregation of expenditures to ensure compliance with the program applicable earmarking requirements.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2006

Finding Number 06-29

Federal program

Community Service Block Grant (CSBG) — CFDA # 93.569

Category

Internal Control/ Compliance

Compliance requirements

Cash management

Condition

We observed that fund requested for payment of two suppliers were not disbursed.

Criteria

The requirements for cash management are contained in the OMB Circular 102, A-102 Common Rule, OMB Circular A-110. Program costs of entities funded on a reimbursement basis, must be paid for by entity funds before reimbursement is requested from the Federal Government.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances and to pay interests for the lack of not following the cash management requirements.

Cause

The program does not have adequate controls to ensure that expenditures are obligated and liquidated on a timely basis.

Questioned Costs

None

Recommendation

We recommend that the program should establish internal controls to ensure the timely liquidation of all obligations before requesting the reimbursement.

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART VII

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

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2006
<u>Department of Housing and Urban Development (HUD)</u>		
Section 8 Housing Choice Vouchers	14.871	\$ 22,226,845
Community Development Block Grants/Entitlement Grants	14.218	11,889,698
HOME Investment Partnership Programs	14.239	2,281,631
Housing Opportunities for Persons with AIDS	14.241	6,442,836
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856	3,857,677
Emergency Shelter Grants Program	14.231	567,540
Supportive Housing Program	14.235	1,080,355
Community Development Block Grants/Section 108 Loan Guarantees	14.248	14,678,056
Shelter Plus Care	14.238	204,090
Subtotal		63,228,728
<u>Department of Health and Human Services (HHS)</u>		
Head Start	93.600	26,240,954
HIV Emergency Relief Project Grants	93.914	13,504,953
Substance Abuse and Mental Health Services	93.243	667,779
Health Center Grants for Homeless Populations (HCH)	93.151	387,551
Pass-through from Commonwealth of Puerto Rico Families and Child Administration- Community Services Block Grant	93.569	3,823,736
Pass-through from Commonwealth of Puerto Rico Governor's Office- Special Programs for the Aging-Title III, Part C-Nutricion Services	93.045	787,476
Pass-through from Commonwealth of Puerto Rico-WESTAT- National Health Institute-WESTAT	93.990	1,022,413
Pass-through from Commonwealth of Puerto Rico Department of Education- Risk Reduction	93.941	195,160
Childhood Immunization Grants	93.268	175,918
Maternal and Child Health Services Block Grant to States	93.994	96,280
Strengthening Families Program	93.556	91,561
Subtotal		46,993,781

See notes to Schedule of Expenditures of Federal Awards

**MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2006
<u>Department of Labor (DOL)</u>		
Pass-through from Commonwealth of Puerto Rico Right to Employment Administration-	17.258,	
	17.259,	
Workforce Investment Act (WIA)	17.260	<u>7,084,056</u>
<u>Department of Justice (DOJ)</u>		
Public Safety Partnership and Community Policing Grants (COPS)	16.710	1,479,286
Drug Free Communities Support Programs Grants	16.729	374,020
Gang Resistance Education and Training (GREAT)	16.737	1,125
Community Prosecution Project Safe Neighborhoods	16.609	841,407
Pass-through from Commonwealth of Puerto Rico Department of Justice:		
Crime Victim Assistant	16.575	81,766
Alcohol, Tobacco and Firearms Training Assistance	16.012	41,621
Subtotal		<u>2,819,225</u>
<u>Department of Education (ED)</u>		
Federal Pell Grant Program (PELL)	84.063	2,168,017
TRIO Student Support Services	84.042	258,030
Higher Education - Institutional Aid - Strengthening Institutions Program	84.031	399,525
Supplementary Educational Opportunity Grants	84.007	38,320
Minority Science	84.120	53,601
Federal Work-Study Program (FWS)	84.033	64,614
Subtotal		<u>2,982,107</u>

See notes to Schedule of Expenditures of Federal Awards

**MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2006
<u>Department of Agriculture (USDA)</u>		
Pass-through from Commonwealth of Puerto Rico Department of Education- Child and Adult Care Food Program (CACFP)	10.558	<u>1,655,407</u>
<u>Corporation for National and Community Service</u>		
<u>Pass-through from Commonwealth of Puerto Rico Department of Health:</u>		
Foster Grandparent Program	94.011	391,435
Retired and Senior Volunteer Program	94.002	<u>126,285</u>
Subtotal		<u>517,720</u>
<u>Department of Homeland Security</u>		
Emergency Management Performance Grants	97.042	106,668
Homeland Security Grant Program	97.067	<u>1,018,999</u>
Subtotal		<u>1,125,667</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 126,406,691</u>

See notes to Schedule of Expenditures of Federal Awards

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

1. **Basis of Presentation**—The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of San Juan, Capital City of Puerto Rico (the "Municipality"), and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality's government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, which conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounts of the Municipality are presented on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

A reconciliation of amounts included in the Schedule of Expenditures of Federal Awards to the other governmental funds column in the fund financial statements follows:

Schedule of expenditures of federal awards	\$ 126,406,691
Federal programs not included in other governmental funds	(14,678,056)
Component unit	2,363,487
Nonfederal programs included in the special revenue funds	<u>40,228</u>
Total special revenue Funds	114,132,350
Capital projects Funds	<u>21,925,930</u>
Other governmental funds column in the fund financial statements	<u>\$ 136,058,280</u>

2. **Catalog of Federal Domestic Assistance ("CFDA")** numbers are presented for programs for which such numbers are available.

3. **Reporting Entity**—The Municipality, for purposes of the supplementary Schedule of Expenditure of Federal Awards, includes all the funds of the primary government as defined by GASB Statement No. 14, *The Financial Reporting Entity*.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO**

PART VIII

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

MUNICIPALITY OF SAN JUAN

Status of Prior Year 2004-2005 Single Audit Requirements as of June 30, 2006

Finding Number	Condition Found	Questioned Costs	Status
Accounting and Finance Department			
05-01	Deficit in the Municipality's general fund at June 30, 2005.	\$ -	Situation still prevails. Refer to Finding 06-01 and related Corrective Action Plan.
05-02	The Municipality is not taking the necessary steps to amortize or reduce the accumulated deficit in the general fund, as required by law.	-	Corrective Action Plan implemented with positive results.
05-03	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of one year.	-	Situation still prevails. Refer to Finding 06-02 and related Corrective Action Plan.
05-04	Inactive and unnecessary funds and accounts are not closed.	-	Situation still prevails. Refer to Finding 06-03 and related Corrective Action Plan.
05-05	The Municipality's payroll register cannot be reconciled with its corresponding general ledger payroll and related benefits accounts.	-	Situation still prevails. Refer to Finding 06-04 and related Corrective Action Plan.
05-06	Internal controls over property management needs to be strengthened.	-	Situation still prevails. Refer to Finding 06-05 and related Corrective Action
All Federal Programs			
05-07	The Municipality does not prepare periodic employee certifications.	-	Situation still prevails. Refer to Finding 06-06 and related Corrective Action
05-08	The Municipality does not have procedures in place to verify the status of an entity as to suspension and debarment when contracting services or procuring goods with federal funds.	-	Corrective Action Plan implemented with positive results.
05-09	The Municipality lacks of adequate internal controls to ensure compliance with the earmarking, period of availability, and financial reporting compliance requirements.	-	Corrective Action Plan implemented with positive results.

MUNICIPALITY OF SAN JUAN

Status of Prior Year 2004-2005 Single Audit Requirements as of June 30, 2006

Finding Number	Condition Found	Questioned Costs	Status
Section 8 Housing Choice Vouchers			
05-10	The Municipality has not collected its accounts receivable from participants.	-	Situation still prevails. Refer to Finding 06-07 and related Corrective Action Plan.
05-11	The Municipality lacks internal control over it's Section 8 Housing Choice Voucher Program.	-	Situation still prevails. Refer to Finding 06-08 and related Corrective Action Plan.
05-12	Policies and procedures for determination of participant's eligibility need to be strengthened.	29,628	Situation still prevails. Refer to Finding 06-09 and related Corrective Action Plan.
05-13	The Municipality did not comply with federal requirements regarding the determination and approval of participant's unit and its related rent.	-	Situation has been corrected in part due to implementation of Corrective Action Plan.
05-14	The Municipality did not comply with federal requirements regarding the determination of housing assistance payments and lease approval.	12,176	Corrective Action Plan implemented with positive results.
05-15	The Municipality did not comply with federal requirements regarding the utility allowance schedule.		Corrective Action Plan implemented with positive results.
05-16	The Municipality did not comply with federal requirements regarding the selections from waiting list.	-	Waiting list was closed during fiscal year 2006
05-17	The Municipality did not comply with federal requirements regarding Housing Quality Standards inspections and enforcements.	2,221	Situation still prevails. Refer to Finding 06-12, & 06-13 and related Corrective Action Plan.
05-18	Financial Reporting submitted to HUD did not agreed with the accounting records.	-	Situation still prevails. Refer to Finding 06-14 and related Corrective Action Plan.

MUNICIPALITY OF SAN JUAN

Status of Prior Year 2004-2005 Single Audit Requirements as of June 30, 2006

Finding Number	Condition Found	Questioned Costs	Status
<i>Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation</i>			
05-19	The Municipality lacks of internal control over it's Lower Income Moderate Rehabilitation Program	-	Situation still prevails. Refer to Finding 06-15 and related Corrective Action Plan.
05-20	Policies and procedures for determination of participant's eligibility need to be strengthened.	13,092	Situation still prevails. Refer to Finding 06-15 and related Corrective Action Plan.
05-21	The Municipality did not comply with federal requirements regarding the utility allowance schedule.	-	Situation still prevails. Refer to Finding 06-18 and related Corrective Action Plan.
05-22	Financial report submitted to HUD did not agree with the accounting records	-	Situation still prevails. Refer to Finding 06-19 and related Corrective Action Plan.
05-23	The Municipality did not submit HUD 40118 Annual Progress Report.	-	Situation still prevails. Refer to Finding 06-20 and related Corrective Action Plan.
05-24	The Municipality does not have adequate internal controls to ensure the current occupancy status of the units receiving program assistance.	-	Situation still prevails. Refer to Finding 06-21 and related Corrective Action Plan.
<i>Housing Opportunities for Persons with AIDS</i>			
05-25	Controls over financial information included in reports submitted to the HUD need to be strengthened.	-	Corrective Action Plan implemented with positive results.
05-26	The Municipality does not have adequate internal controls over the evaluation of sub grantee proposals and monitoring of sub recipient's activities.	-	Situation still prevails. Refer to Finding 06-25 and related Corrective Action Plan.

MUNICIPALITY OF SAN JUAN

Status of Prior Year 2004-2005 Single Audit Requirements as of June 30, 2006

Finding Number	Condition Found	Questioned Costs	Status
<i>HOME Investment Partnership Program</i>			
05-27	Financial Records of the Municipality do not provide adequate information to separately identify program income earned by the HOME program.	-	Situation still prevails. Refer to Corrective Action Plan.
05-28	Policies and procedures over determination of participant's eligibility need to be strengthened.	-	Situation still prevails. Refer to Corrective Action Plan.
05-29	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOME program.	-	Situation still prevails. Refer to Corrective Action Plan.
05-30	The Municipality awarded a contractor for housing project not affordable to participants.	-	Corrective Action Plan implemented with positive results.
05-31	The Municipality of San Juan lacks of internal controls over tenant based-rental projects assisted with HOME funds.	-	Corrective Action Plan implemented with positive results.
<i>HIV Emergency Relief Project Grants</i>			
05-32	The Municipality is not maintaining adequate controls over property and equipment items acquired with federal funds.	-	Corrective Action Plan implemented with positive results.
<i>Workforce Investment Act</i>			
05-33	The cumulative financial reports submitted to the PRHRODC do not agree with the accounting records.	-	Corrective Action Plan implemented with positive results.
05-34	The Municipality is not maintaining adequate controls over property and equipment items acquired with federal funds.	-	Corrective Action Plan implemented with positive results.

MUNICIPALITY OF SAN JUAN

Status of Prior Year 2004-2005 Single Audit Requirements as of June 30, 2006

Finding Number	Condition Found	Questioned Costs	Status
Head Start			
05-35	The Municipality is not maintaining adequate controls over property and equipment items acquired by the Head Start Program.	-	Corrective Action Plan implemented with positive results.
		<u>\$ 57,717</u>	