

TRANSPARENCY, ACCOUNTABILITY AND FISCAL RESPONSIBILITY PRACTICES IN PUERTO RICO'S MUNICIPAL GOVERNMENT: CHALLENGES AND OPPORTUNITIES

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Abstract

Governmental transparency is the ability to find out what is going on inside government. This essay provides an overview of the key research findings of the study on Municipal Governance performed by the Center for Public and Corporate Governance. The research study has the purpose of examining the practices of transparency, accountability and fiscal responsibility in the municipal governments of Puerto Rico. The objective of the study intends to make a diagnosis to identify the municipalities' level of readiness, areas of strength, and weaknesses when implementing better municipal good governance practices aimed at strengthening transparency in management at the local level. Emphasis on financial transparency data collected for each municipality is presented in dashboards for a better understanding of the municipal government fiscal and budgeting practices.

This research analyses the administrative and fiscal management practices and the legal framework for the normative principles that regulate transparency, accountability, and fiscal responsibility in municipal governments. This analysis is performed in order to diagnose the advances and challenges in building a system of government management at the municipal level that generates trust and credibility in entrepreneurs and investors, and provides citizens with mechanisms to demand greater transparency and accountability, and to supervise their representatives and leaders.

The findings and recommendations resulting from this study will allow the formulation of recommendations to improve the practices of transparency, accountability and fiscal responsibility as a tool to strengthen the governance capacity of municipalities. An open, transparent and accountable governance will enable short, medium, and long term strategic results in terms of quality of life, prosperity, and competitiveness for citizens and entrepreneurs, and to enhance service delivery to satisfy citizens' needs in a more effective, agile, and efficient manner.

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OVERVIEW

Transparency has long been considered a cornerstone of good governance (Hood, 2010). Transparency is the principle of allowing those affected by administrative decisions to ascertain resulting performance facts, budget and financial figures and about management process that resulted in those decisions. Transparent governance means that government officials act openly with citizens' knowledge of the decisions officials are making. Transparency also enables the free flow of information among public agencies, citizens and private institutions, allowing input, review, scrutiny and criticism of government actions and thereby increases the quality of governance.

The lack of transparency in public governance, both at the state and municipal levels, is a matter of global concern. According to theorists, apart from keeping government corruption in check, it is the foundation of an authentic, sustainable development strategy (OCDE, 2002). The consulted academic and theoretical works emphasize that transparency, accountability and fiscal responsibility are pillars of good governance. Availability of information on government policies and actions, a clear sense of responsibility, and assurance that governments are efficiently administered and free of systematic corruption are important components of transparent governance.

The proper balance between governmental secrecy and good governance practices is at the forefront of contemporary public debate. Although trans-

parency is a popular subject matter, there is very little previously published work in Puerto Rico identifying the determinants of good governance practices in municipal governments. The lack of research in this area is likely because the transparency subfield has just recently gained momentum due to the fiscal crisis and the concept of transparency practices in local government is difficult to measure due to the lack of a legal framework. This research adds to the literature by systematically examining transparency, accountability and fiscal responsibility practices in municipalities and the factors associated with good governance practices.

Local governance refers to the set of formal and informal rules, structures and processes which determine the ways in which citizens and organizations can exercise power over the decisions which affect the wellbeing at the local level. The effectiveness of municipal governance depends on a wide range of factors: political, social and economic. It is widely accepted that transparency, accountability and fiscal responsibility are key issues of our times especially in the way they relate to good governance and anticorruption. It can improve decision making (Bok 1989), impede corruption (Bertot, Jaeger, and Grimes 2010), enhance accountability (Pina, Torres, and Royo 2007), and foster a more informed and understanding citizenry (Cook, Jacobs, and Kim 2010). When taken together, the varied benefits of enhanced transparency should culminate in more responsive and trustworthy public organizations (Goetz

and Jenkins 2001; Welch, Hinnant, and Moon 2005; Kim and Lee 2012). Therefore, recent attempts by local governments to enhance good governance practices have generally been welcomed.

International best practices as well as the academic coursework suggests that public sector activity should be, to the extent possible, performed by the local level of government. In addition to enable the public to accurately understand what their government is doing, information that is publicly disclosed must be comprehensive in the sense that it touches upon the issues necessary to understand the actions taken by the government. There are several frameworks that have been developed to provide a more systematic understanding of the types of information necessary to enhance “government transparency.” Two of these frameworks are discussed further.

Purpose of the study

This research study has the purpose of examining the practices of transparency, accountability and fiscal responsibility in the municipal governments of Puerto Rico. The objective of the study is to make a diagnosis to identify the municipalities’ level of readiness and areas of strength and weakness when implementing better municipal management practices aimed at strengthening transparency at the local level.

In the context of this research study, the readiness to adopt the principles and practices of transparency, accountability and fiscal responsibility in

municipal affairs is defined as the extent to which the municipal government is ready and willing to carry out the processes, implementation of practices and actions of good public governance, as established by the academia and international organizations. The adoption of these practices improve performance results, government response and ensures the prudent and optimal use of government fiscal resources to promote economic development, generation of wealth, job creation, and the common good of citizens.

This research analyses the administrative and fiscal management practices and the legal framework for the normative principles that regulate transparency, accountability, and fiscal responsibility in municipal governments. This analysis is performed in order to diagnose the advances and challenges in building a system of good governance practices at the municipal level that generates trust and credibility in entrepreneurs and investors, and provides citizens with mechanisms to demand greater transparency and accountability, and to supervise their representatives and leaders.

The aim is to achieve a common body of knowledge and the basis of information necessary to promote the relevant strategic actions required, and to formulate integrated and coherent legislation, public policies and programs to advance a good governance agenda in municipal management. To carry out the research study, we used international criteria on transparency and accountability as they apply to municipal governments. Although the mere analysis of formal and legal mechanisms is

insufficient to ensure good governance, it is essential to identify if mayors and municipal legislatures are or not transparent and accountable. The findings of this research constitute a first step to explore this area of study, so important for the democratic cohesion of the Island.

The findings and recommendations resulting from this study will allow the formulation of recommendations to improve the practices of transparency, accountability and fiscal responsibility as a tool to strengthen the governance capacity of municipalities. An open, transparent and accountable governance will enable short, medium, and long term strategic results in terms of quality of life, prosperity, and competitiveness for citizens and entrepreneurs, and to provide them with services in a more effective, agile, and efficient manner.

Research Questions

1. Is there a comprehensive legal and regulatory framework (laws and regulations) aimed at demanding that the municipal function be transparent and accountable for its results in Puerto Rico?
2. Do public policies, and transparency, accountability and fiscal responsibility programs for municipal management exist in Puerto Rico?
3. Are there practices, processes and procedures to comply with the principles of municipal governance within the municipalities of Puerto Rico selected in the research study sample?

4. What is the degree of transparency, accountability, and fiscal responsibility of the Puerto Rican municipal administrations studied in this research when applying the selected international indicators or standards to evaluate these variables?
5. After applying the selected international standards to assess the degree of transparency in the selected municipalities that make up the research study sample, what are the priority areas that need to be addressed to improve governance in municipal management?

Research Problem and Its Background

Due to citizens' close proximity to local governments, as well as a rapid increase in attempts to enhance transparency at this level, this area of government is a particularly interesting context to assess the effects of transparency practices to enhance good governance. Accordingly, a large number of studies have attempted to offer insight into how public disclosure influences the way local governments function. While valuable, the breadth of findings makes distilling key themes and implications for effective practice challenging.

This article synthesizes the research study findings on Municipal Good Governance Practices focusing on transparency, accountability and fiscal responsibility and also provides an overview of the fiscal situation of municipalities. According to Porumbescu two conceptual frameworks are discussed below.

The first conceptual approach divides local government transparency into four dimensions (Cucciniello and Nasi 2014). The first institutional dimension focuses upon disclosure of information pertaining to the activities of public organizations. The second political dimension refers to information pertaining to political representatives, such as their salary or their attendance in town hall meetings. The third dimension relates to financial management and outlines how public actors make use of the financial resources allocated. The fourth dimension of transparency, service delivery, outlines how local government performs in its delivery of public services. Accordingly, disclosure of information pertaining to each of these dimensions is critical to affording citizens a comprehensive understanding of how each component of their local government functions.

The second framework divides transparency of local government in general into three sequential components (Heald 2003; S. G. Grimmelhuisen 2012). The first component, decision-making transparency, refers to citizens' access to information about discussions leading up to the adoption of a particular policy—who were the actors involved in the process and what points were considered in the decision to adopt a particular course of action? The second dimension, policy transparency, outlines how an adopted policy intends to address a particular social issue as well as anticipated effects on different segments of the population. The third and final dimension is policy outcome transparency, which addresses the

provision of information to the public that details the actual effects of a particular policy. Taken together, these three dimensions, like those proposed by Cucciniello and Nasi, are intended to provide the public a comprehensive understanding of what the government is doing, how the government is doing it, and why.

As both frameworks illustrate, enhancing transparency of local government means much more than the mere provision of “more information to more people” (Welch, Hinnant, and Moon 2005, 375). Rather, the information needed to enhance local government transparency is diverse. In large part, this is due to the broad spectrum of obligations local governments are responsible for. As such, without access to such comprehensive information, the public will be unable to accurately understand and evaluate the actions of their government. For example, exposure to information on policy outcomes (policy outcome transparency) may help the public obtain a better understanding of the effects of a particular policy. Yet, without exposure to information that discusses the intended effects of said policy (policy transparency), it is impossible for the public to accurately gauge performance.

Furthermore, accountability plays an important role in linking transparency to a more responsive local government. By affording greater public access to government information, external stakeholders are empowered to align the performance of their local government more closely with their own preferences. Therefore, from this perspective, a

central objective of transparency policy is mainly one of empowerment. Moreover, as discussed earlier, achieving this objective is contingent upon the disclosure of various forms of government information.

In addition to enhancing responsiveness, transparency is argued to promote public trust in government. This is because transparency can be used to correct misperceptions of government performance that result from a lack of information. Specifically, citizens often lack objective information about what their government does for them, or how well their government is performing, and as a result are overly critical of the performance of their local government (Kelly 2002; Mettler 2011; Im, Porumbescu, and Lee 2013).

Regarding Puerto Rico, previous research studies performed by the Center for Public and Corporate Governance reveal that “the last decades have shown that plurality and political cycles have not been sufficient conditions to advance good governance and effective public institutions. More-over, electoral democracy in Puerto Rico has not ensured that the state and municipal leaders elected by the citizens’ vote are liable, transparent and accountable for their actions once in office. Political alternation and “Partidocracy” during the past decades has deepened the deterioration of public institutions and the lack of prudence in the management of public finances”.²

² Centro de Gobernanza Pública y Corporativa (CGPC, 2014). Estudio sobre Gobernanza y

The subject of weak governance and negligence in the administration of public resources, both at the state and municipal levels, has been a source of concern for decades, and has worsened during the past ten years. In this context, municipal governments have acquired a pivotal role and greater responsibility following the delegation of powers and budgetary resources that the government has been allocating with the approval of the Autonomous Municipalities Act, Act No. 91 of 1991, as amended.

This legislation envisions municipal autonomy as an expression of democracy, which seeks to bring government closer to its citizens in order to improve the wellbeing of the population, make rational use of the available fiscal resources and further economic development. The adopted legislation of 1991 highlights its adherence to the essential principles of the *raison d’être* of democracy and the core values of good governance: effectiveness and efficiency, the search for consensus, equality, citizen involvement and participation, and compliance with the legal and regulatory framework arising from this law as key elements to foster the common good.

However, its approach is limited in relation to the guiding principles of good public governance. The lack of a clear public policy regarding the municipalities’ obligation to act transparently and be held accountable to citizens for

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its results, has diminished their confidence in government.

This mistrust is largely due to the lack of clarity, coherence and sanctioning capability of the limited and fragile legislation in force, and to the inefficiency of public policies to guarantee the oversight, supervision and control mechanisms in compliance with the established regulatory framework. Trust, beyond blind faith, must be understood as a principle nourished mostly by experience, but in which perception plays a transcendental role. That is why it is said that a government cannot maintain or restore public trust in its actions without adopting transparent processes and effective accountability.

Managing public governance rooted on these pillars not only represents the expectations of citizens, entrepreneurs and investors, but also provides an opportunity for local and state governments to build up trust in their institutional and leadership capabilities and legitimize their actions. Furthermore, these principles of good public governance facilitate the formulation of an integrated legal framework, the articulation of coherent public policies and promotes effective communication with citizens (FMI, 2011; BM, 2009).

For the aforementioned reasons, during the past five years the Center for Public and Corporate Governance (CPCG) at the University of Turabo has studied with scientific rigor the perspective of transparent and open governance, accountability and fiscal responsibility management practices of Puerto Rico's

public administration. The research conducted by the CPCG to study these variables in the context of Puerto Rico indicate that the debate on transparency, accountability and fiscal responsibility is still very incipient. This condition has relegated the study of the principles of good governance in Puerto Rico, both at the state and municipal levels. The research studies carried out by the CPCG point out that the Island is lagging in terms of transparency, accountability and fiscal responsibility when compared to the countries that have the highest scores in global indicators for best practices (CGPC 2013, 2014).

According to the CPCG, government transparency means that citizens have reliable and timely information (in the shortest time possible) regarding public affairs, in a constant, accessible and comprehensible manner. Additionally, it provides the opportunity to identify those responsible in each instance of public management, their obligations and sanctions for their non-compliance, and the existence of formal channels of citizen engagement in the formulation of public policies and decision-making processes. The concept is widely used in the fiscal context, since transparency makes it possible to measure the level of efficiency and effectiveness of public expenditure and promotes the democratization of the budgetary process.

Nonetheless transparency' status as a legal obligation for government entities in Puerto Rico as an individual rights for citizens is readably vague. Notwithstanding federal legislation establishing citizens' rights of access to government

information such as the Freedom of Information Act (FOIA), the Right to Know Act and most recently the open government regulation has yet to be adopted in Puerto Rico.

Fiscal transparency promotes awareness to those affected by public actions not only of the financial results, but also of the fiscal policies, with their mechanisms and processes. In this matter of transparency and accountability, the study on the State of the Legal and Regulatory Framework of Transparency and Accountability in the Government of Puerto Rico (2013), the Center for Public and Corporate Governance concluded the following:

“The practice of transparency in government, that is, to make accessible and understandable all public matters to ordinary citizens, should lead to greater **fiscal responsibility** on the part of officials [...] and **greater efficiency and effectiveness in the use of public resources**. It should also drive citizens to become watchdogs of the actions and decisions of government and strengthen citizen participation in decision-making and the formulation of public policy. [...].

Accountability, therefore, must be understood within the context of management (administration) of results, having a public management that promotes compliance with government goals and strategic objectives. Accountability encourages focus on the quality of public services and meeting the specific needs of citizens. [This concept, when linked to transparency, seeks that] government components are centered in obtaining measurable results, disclosure to citizens and effective use of

public resources. This is achieved through the formulation of strategic plans including long term goals and measurable objectives, implementation plans and periodic reporting of results along with full disclosure mechanisms.”

Additionally, the findings of the research studies carried out by the CPCG conclude that currently, Puerto Rico does not have a coherent, integrated legal framework to advance the transparent and open governance necessary for the Island to address its fiscal crisis, its sustainable economic development and promote the common good. The deficiencies in governance, transparency and accountability, both at the state and municipal levels, and the negligence in the management of fiscal affairs have demonstrated that unless there is an institutional framework that compels government to act accordingly, citizens will not have the necessary information to be active participants in the democratic process. These shortcomings in public governance have not allowed the coherent formulation of public policies and programs to address Puerto Rico's priorities (CPCG 2013, 2014).

The revised literature on the subject emphasizes that transparency in public entities is a fundamental component to fulfill the government administrations' accountability and fiscal responsibility towards its citizens, thus developing into one of the fundamental characteristics of good governance. At present, the concept of transparency has gained momentum and it has become a major challenge for society to avoid the misuse of public funds, inefficiencies and abu-

ses in the exercise of public functions, and the control of corruption.

Beyond being a preventive tool against corruption, transparency promotes sustainable development, the generation of wealth and job creation. Furthermore, it promotes the involvement and active participation of the private sector and social actors in the exercise of the public function, creating certainty and credibility as the basis for the link between citizens, entrepreneurs and government to generate the social cohesion required to move forward the country's agenda.

In examining the principles and foundations of public governance, we find that this paradigm manages to overcome the shortcomings of traditional bureaucratic government by incorporating management practices that allow greater efficiency and focus on results, and widens the spectrum of social actors in the identification of problems, creation of solutions and decision-making. Dr. Aguilar Villanueva, in his publications on governance and public policies, emphasizes that: "governance allows us to overcome the limitations and restrains of traditional government, particularly because it brings decision-making closer to citizens and places the government in a better position to fulfill its duty of leading society by mobilizing and conjugating the existing capabilities in society" (2012).

Municipal Transparency, Accountability and Fiscal Responsibility

Governance at the municipal level has gained enormous importance in the past decade. Municipal governments are complex organizations that provide goods and offer public services to citizens. They are entities that develop a wide and diverse range of programs and services. These organizations are intricate administrative and technical entities in terms of the fiscal and human resources they administer. This requires a broad, extensive, heterogeneous and diverse range of institutional and organizational capabilities, and managerial and human capital competencies.

In order to satisfy the needs of the population, municipalities must provide agile and high quality public services, prudently manage municipal finances, and plan and carry out public works with the involvement of all social actors, including entrepreneurs and citizens. To achieve this objective, the development of sound public policies is necessary to implement adequate and transparent administrative processes focused on achieving results framed in broad accountability and in a fiscally responsible manner. Good governance is not only characterized by the efficacy and efficiency of its affairs, but also by the transparency with which it manages and implements local development programs and projects.

A fundamental problem addressed in the CPCG research studies to strengthen good governance of public affairs is the need to formulate an integrated and coherent legal and institutional frame-

work on transparency, accountability and fiscal responsibility that can be applicable at both state and municipal levels as a measure to address the discretion of those who exercise power on behalf of citizens. The relevance of this problem affects the levels of trust that citizens have in state and municipal institutions (CPCG 2013, 2014).

In the context of this research study, transparency is an attribute of public officials and institutions that permits the clarity, openness and visibility of their actions, as well as the citizens' access to information. Transparency is the opposite of opacity, secrecy and under-the-table arrangements, typical of corruption. Its practice creates an environment of trust and credibility between public servants and the citizens.

Transparency entails the exercise of citizen's rights and an obligation for public officials. The basic rights of citizens are related to access to public information and active participation in public affairs of their interests. Moreover, in order for the municipal government's management to be transparent, it must fulfill the following duties and obligations: (1) establish transparent consultation procedures for decision-making, (2) develop coherent standards and procedures to manage public resources and effective internal controls, (3) establish an accessible and simple system of reliable, relevant and timely information, and (4) openness to citizens and the press' scrutiny regarding the implementation and evaluation of municipal public policies and the integrity of officials.

On the other hand, accountability is the act by which public officials or any other person acting by delegation of a third party, fulfills its obligation to respond for the matters assigned to them. This implies the obligation to: (1) respond to citizens' complaints and questions, (2) explain and substantiate the decisions made, and (3) be personally responsible for the actions carried out and the level of quality of the results, even with their personal assets.

Its importance lies in that citizens, when participating in an accountability scenario, can exercise their right to inform themselves and supervise their public authorities, as well as know what is being done with public resources and the results obtained. In this context, the objectives of accountability are: (1) to make the management of public affairs transparent, (2) build trust towards the government and its institutions, and (3) allow social actors to conduct a more objective analysis in order to formulate public policies that satisfy the public interests. In summary, accountability, in addition to contributing to the prudent management of public funds, implies that public officials must also answer for the realization of previously defined goals, as well as the satisfaction of the population's needs through public policies.

Fiscal responsibility is defined as the government's commitment to generating the revenues needed to operate the government apparatus without imposing an unsustainable burden on citizens, and the obligation to prudently manage these public resources. The term is also used in reference to the

development and administration of a balanced budget in which operating expenses do not exceed revenues. It is linked to the fiscal management officials' commitment to act with prudence in public spending to maintain a balanced budget. Fiscal responsibility must be viewed from the citizens' perspective, which are the ones who ultimately suffer the consequences of negligent fiscal management.

Legal and Regulatory Framework

Autonomous Municipalities Act

In 1991, the Autonomous Municipalities Act of the Commonwealth of Puerto Rico was approved. The "municipality" classification began to be gradually replaced by "autonomous municipality." This change of nomenclature was accompanied by the progressive transformation of municipal governments. The purposes of this Act were to bring the residents of each geographical division closer to the decision making power regarding their internal affairs and eventually reduce the size of the island's central government. This gradual process is regulated and assisted by the Office of the Commissioner of Municipal Affairs (OCMA).

As stated in Act No. 81 of 1998, as amended, an autonomous municipality is "a geographic demarcation with all its wards, which has a specific name and is governed by a local government composed of a Legislative Power [Municipal Legislature] and an Executive Power

[Office of the Mayor]." In order to be considered an autonomous municipality, each municipality must meet a series of requirements.

Currently, eight (8), out of the seventy-eight (78) municipalities of the Commonwealth of Puerto Rico, fall under the category of autonomous municipalities. The first municipalities to accomplish this were Ponce (November 6, 1992), Carolina (December 30, 1992), Bayamón (November 14, 1994), Cabo Rojo, Caguas (July 30, 1998), and Guaynabo (December 15, 1999). These were followed by Aguadilla (September 21, 2000), Cidra (September 27, 2000), and Humacao (by resolution in 2002).

According to the Supreme Court of Puerto Rico, the 1991 legislation marks a "comprehensive reform of the municipal system that granted municipalities a greater degree of fiscal autonomy and self-government, as well as new administrative and fiscal mechanisms."³ This new regulation substantially broadened the administrative and fiscal powers of the municipalities and transferred to them functions of the government of Puerto Rico so that they could be able to directly address the needs of their citizens.⁴

This new paradigm shift, that of a new service provider and relationship with citizens, required delegating responsibility through legislation and bestowing upon the people the capacity to demand that mayors respond every four years for the results they have achieved.

³ *Alcalde Mun. Humacao v. Ramón Cofresí*, 140 DPR 587, 595-596 (1996). [L]a actuación legislativa marca una "reforma abarcadora del ordenamiento municipal que otorgó a los municipios un mayor grado de

autonomía fiscal y de gobierno propio, además de nuevos instrumentos administrativos y fiscales".

⁴ *Id.*

This new Autonomous Municipalities Act granted municipalities, through different hierarchies (scales) that varied according to the municipality's fiscal resources, the fiscal capability needed to continue performing in the areas they serve, to take on new tasks delegated by the Central Government, and use their own initiative and offer services that had not been available to their inhabitants. With the enactment of the Autonomous Municipalities Act began a new era in the public administration of our Island.⁵

Several provisions of the Autonomous Municipalities Act clearly establish the fundamental change that occurred. We mention some of these provisions below:

1. Section 1.004– Standards for the Interpretation of this Act

The Powers and faculties conferred on the municipalities by this Act or any other act, except for any provision to the contrary, shall be liberally construed in harmony with sound fiscal and administrative public policy practices, in order to propitiate the development and implementation of the public policy set forth in this Act, to guarantee the necessary juridical, fiscal and administrative powers to the municipalities and to effectively address to [sic] the needs and the welfare of the inhabitants thereof.⁶

2. Section 1.005– The Municipality

The municipality is the juridical entity of local government,

subordinated to the Constitution of the Commonwealth of Puerto Rico and to its laws, whose purpose is the local common welfare and within it, primarily, the handling of the affairs, problems and collective needs of the inhabitants thereof.⁷

3. Section 1.006– General Principles of Municipal Autonomy

The juridical, economic and administrative autonomy of each municipality is hereby recognized. Their autonomy is subordinated and shall be exercised in accordance with the Constitution of the Commonwealth of Puerto Rico and to this Act.⁸

4. Section 2.001– Powers of the Municipalities

The municipality shall have the necessary and suitable powers for exercising all the authorities corresponding to a local government and for achieving its purposes and functions...⁹

5. Section 2.004– Municipal Powers in General

Each municipality shall order, regulate and resolve whatever is necessary and convenient to attend to its local needs and for its greater prosperity and development...¹⁰

Likewise, the Autonomous Municipalities Act establishes various provisions and procedural requirements on the

⁵ Statement of Motives, Act No. 81 of 1991, as amended.

⁶ 21 L.P.R.A. § 4002.

⁷ Id. at § 4003.

⁸ Id. at § 4004.

⁹ Id. at § 4051.

¹⁰ Id. at § 4054.

municipal budget process, administrative organization and municipal finances. We mention some of such provisions below:

1. Approval of Budget¹¹: In order to approve the General Budget in an informed and responsible manner, the municipal legislatures articulate a legislative process to ensure that the Executive has presented a balanced general budget and that it meets all the statutory requirements. The Executive will begin to prepare a budget no later than January of each year; however, the Act allows the mayor to present the General Budget Resolution up until May 31. Therefore, the municipal legislatures are granted only thirteen (13) days to evaluate budget resolutions, since the budget must be approved before June 13.
2. Budgets are required to include:
 - a) A mayor's Budget Message with an outline or description of the budget's financial standards and a description of the main aspects thereof, with explanations and justifications. It shall also include a list of capital works and improvement projects for the fiscal years and subsequent years, in order of priority with regard to the community's needs, as well as their sources of financing.
 - b) The municipality's general budget draft resolution shall provide:
 - (1) a complete financial plan for the corresponding fiscal year;
 - (2) a general summary of municipal expenses for the following fiscal year;
 - (3) a detailed estimate of the resources to attend to municipal expenses of wages, fringe benefits, materials, services, permanent works and others;
 - (4) a comparative statement of the appropriations proposed, with those of the previous fiscal year;
 - (5) the Municipality's operational budget may not exceed the income statements certified on the audit reports or "single audit"
 - (6) if the Municipality reflects a surplus in the current budget, it must use it to amortize the accumulated debt; and if no such deficit has been accumulated, it may use it for an Emergency Fund.
 - c) A detailed Budgeting by Program that includes the municipal expenses, description and objectives of every program, subpro-

¹¹ Id. at § 4301.

grams or activities along with their respective costs, a comparative statement with the previous fiscal year, among other information.

- d) It shall be mandatory to include in the general budget of municipal revenues and expenses the allocations related to: interests, amortizations and withdrawal from the municipal public debt, other statutory expenditures and obligations, payment of court judgments, the amount of deficit of the previous fiscal year, contracts that have already been executed, and other operating expenses.

This Act allows the Municipal Legislature to amend the municipality's general budget draft resolution presented by the Mayor in order to incorporate new accounts, or decrease or eliminate account assignments.

It is important to note that the law establishes a clear and binding mandate when it states that the budget must be accessible to any person, including the supplementary documents that have served as basis for determining the allocations and estimates of income to be collected during the corresponding fiscal year. Consequently, any person should have the opportunity to be a part of the supervision and control of the operations of each municipality.

In this way, the Autonomous Municipalities Act establishes the specific procedure as to how municipalities must

carry out, present, justify, approve, and even amend their budgets. Likewise, it includes provisions for mayors, officials and employees related to the Legality and Accuracy of Expenses, which are subject to the provisions of the "Puerto Rico Penal Code," in any matter related to the performance of their public, administrative and fiscal functions. They shall, likewise, produce and submit all reports required by applicable laws, ordinances, resolutions, regulations, procedures and norms within the term established thereby.

Municipal Revenues Collection Center Act

Act No. 80 of August 30, 1991, as amended, also known as Municipal Revenues Collection Center Act (MRCC), creates a municipal entity, independent and separate from any other agency or instrumentality of the Central Government, and under the majority control of the mayors. Its main objective is to collect, receive and allocate real and personal property taxes that correspond to the municipalities.

This Act, on its own, welcomes one of the principles of good governance: Citizen Participation. The Act thusly creates the "Citizen Participation Program for Municipal Development." This program will be financed by the funds that the Legislative Assembly allocates annually, and by any other Federal and Central Government contributions or programs that are allocated to the MRCC to be distributed among the municipalities in a manner provided by the Act.¹² The Act

¹² Section 4, Act No. 80 of August 30, 1991, as amended, also known as "Municipal Revenues Collection Center Act."

also establishes the Municipality's requirements to enable its implementation.

Municipal License Tax Act

Act No. 82 of August 30, 1991, as amended, also known as the "Municipal License Tax Act," grants the municipalities the discretion to increase the maximum tax rate for the payment of patents. Moreover, it allows and provides for staggered rate increases, and authorizes each municipality to impose different rates or exempt from payment thereof, according to the type of industry or trade, business volume, or geographical area where the economic activity is located. This has the purpose of stimulating the creation or expansion of investment and development of specific geographical areas that the municipalities wish to rehabilitate.

Municipal Property Tax Act

Act No. 83 of August 30, 1991, as amended, also known as the "Municipal Property Tax Act of 1991" codifies in a single statute all of the provisions related to real and personal property taxes, and transfers the total property tax revenue to the municipalities. Similar to the License Tax Act, this legislation allows the municipality to impose different taxes or exempt from payment thereof, according to the type of business or industry to which the property is dedicated, or its geographical location.

METHODOLOGY

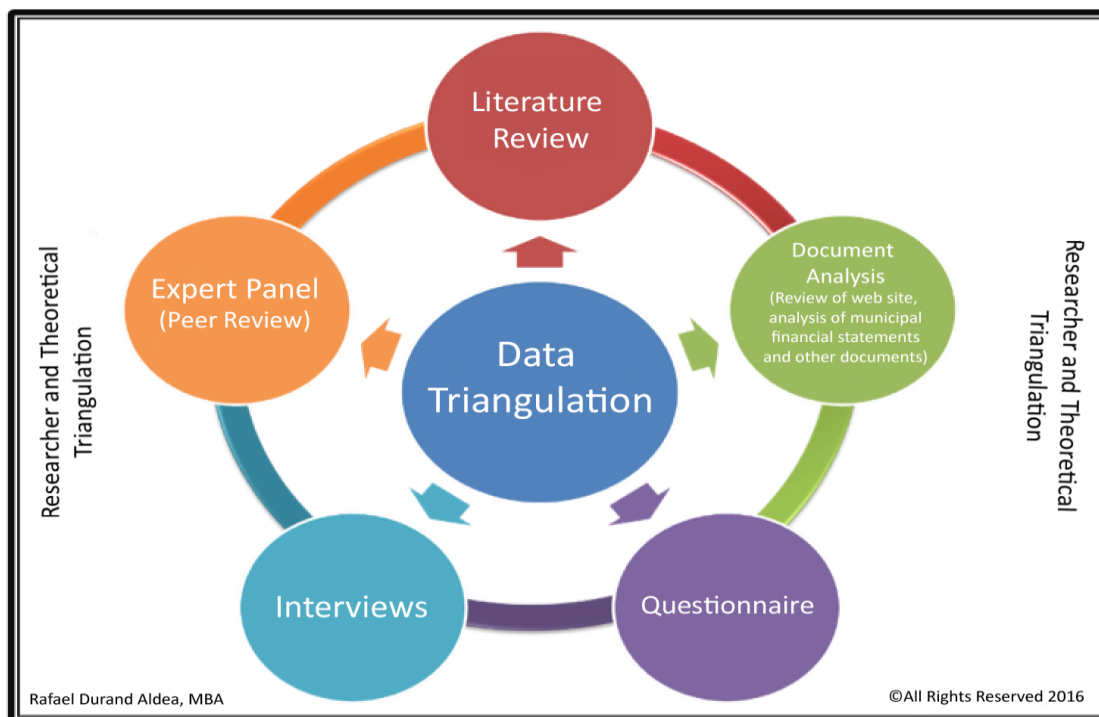
A. Design

This study was conducted with a multiple triangulation methodology that combines several techniques for gathering information. The study combined several data sources, theories and rese-

archers from multiple disciplines. This methodology adds depth to the study. It also allows to address possible differences between the results obtained.

Figure no. 1 below represents the main elements of the methodology:

Figure No 1
Multiple Triangulation Methodology



The research methodology is the process responsible for developing information, define and systematize the set of techniques, methods and procedures to be followed during the development of research for the production of knowledge. It aligns the way we focus research and the way we collect, analyze and classify data in order that the results are valid and relevant and meet scientific standards and requirements.

This study employed a multiple triangulation methodology as a method to increase the validity and quality of the research. Techniques for gathering information included: literature review; documentary analysis (websites and review of electronic documents delivered by municipalities); analysis of financial statements for the period 2010 to 2014; questionnaire design; interviews and panel of experts (peer review).

Selection of the sample

Puerto Rico is territorially organized in 78 municipalities. For this research study 30 municipalities or 38.46% of all municipalities were selected. The research team proceeded to organize the selected municipalities into two groups. As the criteria for grouping, population and economic resources were used. Thus, municipalities represented are those whose population factors and economic resources are at the outermost ends of the values for each criterion. This aims to explore the possible relationship that may exist between fiscal resources and the size of the population with the willingness-disposition-readiness of a municipality to make transparent and available all information and data relevant to citizens, if any. Indeed, this is one of the research questions raised by the study previously.

This mechanism allowed to select 15 or 19.2% of the municipalities of Puerto Rico to form each of the two study groups. In summary, these were grouped in the fifteen (15) municipalities with the highest population and economic resources and the fifteen (15) municipalities with the lowest populations and fiscal resources. This equity in the selection of the number of municipalities, maintains a balance in obtaining results for study; where none of the groups sample selection, would direct the results in one direction or another.

Design of the Instrument

The research instrument to carry out the analysis of openness, willingness and readiness of municipalities to disclose

all relevant information and certain and timely data designed by the CGPC used as reference the Transparency International questionnaire prepared by Spain (TI -Spain).

The Municipal Transparency Index (ITA) was prepared in accordance with the principles formulated by Transparency International. The ITA is used to measure the actual level of transparency and information openness of the municipalities in Spain to citizenship. It consists of a total of 80 indicators grouped into six areas of transparency. TI-Spain points out that these indicators are clearly formulated, transferable and applicable to other countries. There are currently several projects in other countries that have used some of these indicators; for example Mexico (University of Guanajuato-Celaya) and Brazil (Sao Paulo University). The methodology and tool developed by TI - Spain is original, it does not have legal protection of authorship and is accessible on its web portal. Reports on its results are published on their website since 2008.

The instrument developed by the CGPC research team adapted to the particularities of Puerto Rico contains forty-five indicators grouped into four main areas related to transparency / accountability and fiscal responsibility at the municipal level. In addition, this form of investigation was reviewed by a panel of reviewers of the research project. In the questionnaire design variables analysis of the ITA related to indicators that assess the Transparency Law in force in the Country (section F) and the questionnaire items related to transparency

legislation, that does not exist in Puerto Rico, where excluded.

The questionnaire developed by the CGPC to carry out this study consists of four (4) main areas and a total of forty-five (45) items or indicators related to transparency/ accountability and fiscal responsibility. The principal areas are:

- 1- Municipal organization
- 2- Relations with Citizens
- 3- Fiscal Transparency
- 4- Planning, Public Works and Environment

Below, we briefly describe each indicator:

1. MUNICIPAL ORGANIZATION

a. Mayor and Elected Officials:

1. Biodata on the Mayor and other elected officials (municipal legislators).
2. Contact Information of the Mayor and elected officials (email, address, phone number).
3. The salary of the Mayor and payments received by elected officials.

b. Municipal Structure:

1. The municipal organization (including municipal corporations).
2. Information about each department, division or office (including municipal corporations); its purpose, functions, services,

officials in charge and contact information (e-mail, address and phone number).

3. The salary of officials in charge of the departments, divisions or offices (including municipal corporations).
4. The Strategic Plan of the Municipality (and its municipal corporations) and annual plans with specific objectives and the term provided for the achievement of each of them.
5. Reports of Results related to plan (which specific objectives were achieved, which ones are pending and when will they be achieved).
6. An accurate inventory of municipal property (land, structures, equipment, vehicles and others).

c. Human Resources:

1. Employment structure, the Classification and Compensation Plan and personnel regulations of the municipality and its municipal corporations.
2. The list of positions of trust with the name of the official who occupies the position and salary.

3. Job offers in the municipality and its municipal corporations.

d. Municipal Legislature:

1. The approved ordinances and resolutions of the municipality.
2. Minutes of the sessions of the Municipal Legislature.
3. The sessions of the Municipal Legislature, which citizens can see online and videos of all prior sessions.
4. The Municipal Code of Ethics applicable to the Mayor, elected officials, and all municipal employees (including municipal corporations).
5. Judicial decisions affecting the municipality and its municipal corporations are published.

3. RELATIONSHIP WITH CITIZENS

a. Access via internet

1. The municipality has and maintains current a web site accessible to all citizens.
2. The Municipality web site contains a specific section dedicated to municipal transparency and accountability.

b. Citizen Information:

1. All services provided by the Municipality and its municipal corporations, their location, available hours to the public, email addresses and phone numbers.
2. Regulations and administrative procedures, ordinances and resolutions of the Municipality indicating its purpose, process, terms and forms.
3. Foreseeable situations in traffic flow, access, lock-outs or other incidents affecting municipal services communicated to citizen in the media (newspapers, radio ads and other).
4. Environmental situations occurring in the municipality (air or water pollution, natural disasters) continuously updated.
5. A specific for the dissemination of subjects, issues or questions of organizations or community associations space.
6. A specific space in the web site for discussion forums, citizens' opinions and proposals.

c. Citizenship Inclusion

1. There is a citizen's participation and inclusion approved bylaws published in the web site.
2. Information about community or civic organizations and their proposals, agreements and periodic reports are publi-

- shed and reported on the website.
3. The involvement of citizens and organizations in the development of economic plans and municipal budgets is encouraged.
 4. Surveys and their results on the quality and effectiveness of municipal services are published in the municipality's web site.

4. FISCAL TRANSPARENCY

a. Budget Information:

1. The proposed budget is published prior to its approval by the Municipal Legislature.
2. The budget of the municipality and its municipal corporations is published as approved by the Municipal Legislature.
3. All modifications to the approved budget, including justifications, supporting budget amendments, are published prior to their approval.
4. All financing, loans or obligations to be incurred by the municipality and the justifications supporting its approval, are published prior to their approval.

b. Income, Expenses and Debts:

1. Quarterly reports on revenues and expenditures compared to the approved budget are published.
2. Audited Financial Statements of the Municipality

and its municipal corporations are published.

3. A semi-annual report on the municipal public debt compared to the previous five fiscal years is published.
4. The Budget Settlement Report at the end of the fiscal year is published.

c. Contracting Services:

1. Invitations to bid, proposals or offerings are published in the media (newspapers and others).
2. Disclosure of officials who participate in the proposal or bidding evaluation committees that evaluate proposals, recommend the selection of a bidder, or participate in the negotiation and contracting of services process.
3. The disclosure of all documents received and the reports generated by the evaluation, selection, negotiation and contracting committees.
4. A list of municipal contractors is published detailing the work, service or project they perform, the dollar amount of the contract, the objective of the work to be done, the completion period and the mechanisms contained for the performance evaluation of the contractor.

2. URBAN DEVELOPMENT, PUBLIC WORKS, ENVIRONMENT

a. The Municipality's Territorial Plan:

1. Territorial Plan, its maps and the current regulations on urban development and management is published.
2. Policies and programs related to the environment are published.
3. Environmental impact studies regarding projects to be developed in the municipality are published.
4. All proposed amendments to the Territorial Plan, maps and regulations are published prior to their approval.

B. DATA COLLECTION

The process of information and data collection was conducted by Dr. Eneida Torres and Mr. Rafael Durand supported by three research assistants, the Mrs. Rosa Ivette Santiago, Mrs. Carmen Nieves and Mrs. Diana Calero. This process included the search and review of data and information available through digital sources of municipalities, in person or interviews in each of the selected municipalities.

1- Corroboration of Data and Information Availability

First stage

CGPC researchers will access the web sites of each municipality and confirm the availability of data and information contained therein. For

each indicator, the following score was awarded: two (2) points if the data and information is published in full in the electronic portal; one (1) point if the data and information is published incomplete or partially; and zero (0) points if the data and information is not available on the website of the municipality.

Second Stage

Upon completion of the first stage an interview with the mayor or a designated representative will be requested to discuss the relevant information or data that is not available on the Web site and request a copy from the municipality. Said data or information is to be provided by the municipality within a specific time frame, usually two weeks from the date requested.

Researchers will document requests for interviews, follow-ups, the content of the interview, documents and data requested and receipt thereof. In this second stage the following score will be awarded: one (1) point for each item or report requested and provided; zero (0) points for data or information requested and not provided. The maximum total requested data and reports is twenty-eight (28). Similar to the first stage the total score will be represented in percentage terms.

This second stage is essential to determine the level of willingness or readiness of municipal officials to disclose the information and

data requested. For purposes of this study failure to provide the information and data requested is classified as poor willingness and readiness to act transparently with regard to municipal affairs.

2- Ranking by Score

Researchers award scores to the municipalities evaluated for the two stages and develop a system described by score achieved. In the first stage where the availability of data and information on the municipality's web site is evaluated, municipalities will be arranged from the municipality with the highest score (greater availability of data and information on the Web site) to the one with the lowest score (lower availability of data and information on the Web site).

In the second stage results of the municipalities will be arranged to present those with the higher scores (more willingness to provide the data and information requested) to those municipalities with the lowest score (less willingness to provide the data and information requested).

3. Evaluation of Financial Results

The financial results of the municipalities indicate among other things, if municipalities have been fiscally responsible when managing their limited financial resources. Particularly

the municipalities' budget planning of income and expenses, the prudent use of scarce public resources and the judicious use of available financing. To perform this analysis, researchers of the CGPC requested to the municipalities copies of the audited financial statements for fiscal years 2005 to 2014. In addition, these same documents were requested from other sources such as the Office of the Comptroller and the Office of the Commissioner Municipal Affairs (OCAM).

The four (4) financial criteria to be considered in this analysis are:

Criteria

- 1- The municipality met (or did not meet) the authorized income and expenditure budget without incurring in significant variations. For the purpose of this analysis any deviation of more than five percent (5%) of the authorized revenues and expenditures budget is considered a significant variation. Loans incurred by the municipality to cover operating costs is not considered as income (referred to for purposes of this study as "adjusted income"). Complying with the authorized budget without incurring significant variations represents fiscally responsible management.

- 2- The municipality generated “adjusted income” equal to or greater than expenditures incurred in four (4) of the five years evaluated. This represents responsible fiscal management.
- 3- The municipality did not incur in loans to cover operational expenses in at least four (4) years of the evaluation period. Payment of operational expenses without using funds arising from loans represents a fiscally responsible behavior.
- 4- The total debt of the municipality in bonds and long-term notes is not increased disproportionately to “adjusted income” generated by the municipality. For purposes of this study to increase long-term debt without a proportional increase in “adjusted income” undermines the sustainability of municipal finances and impairs the ability of the municipality to meet its financial obligations. Therefore, limiting the increase in long-term debt to the availability of additional “adjusted income” generated represents a fiscally responsible behavior.
4. The result of the analysis of the audited financial statements of the selected municipalities, allows researchers to differentiate between those municipalities that have been fiscally responsible during the period 2010-2014 and those municipalities that have not been fiscally responsible.
5. For the purpose of this study, to meet three (3) or four (4) of the criteria outlined above constitutes adequate compliance; to meet two (2) criteria constitutes partial compliance; and to meet one (1) or none (0) of the criteria constitutes a significant breach to fiscal responsibility.

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. Research Findings

The key findings of the research analysis regarding municipal transparency, accountability and fiscal responsibility practices reveals that in order to enable the public to accurately understand what their government is doing, information that is publicly disclosed must be comprehensive in the sense that it touches upon the issues necessary to understand the actions taken by the government. The study emphasizes the role of transparency as the bedrock principle for accountability and fiscal responsibility of municipal government and a more trustworthy local government. Transparency must be complemented by the establishment of formal pathways through which the public can consistently respond to information they are provided. A key requirement for these practices to prosper is that Puerto Rico must adopt an integrated fiscal responsibility legislation as a first step to promote order and discipline in the management of municipal finances. The research study also proposes the establishment of a rigorous reporting requirement to foster a more transparent budget formulation process, improve the quality of public spending, control the level of indebtedness and provide a framework to improve public policy and weigh the effects of fiscal decisions.

Specific findings are discussed below.

Legal Framework

1. The Autonomous Municipalities Act of 1991 did not regulate the obligatory nature of transparency, accountability and fiscal responsibility in Puerto Rico's municipal affairs.

This Act lacks a coherent legal framework that establishes the municipalities' obligation to disclose to citizens, entrepreneurs and investors all relevant data and public information before making decisions, and actively engage social actors in this process. This includes strategic planning processes, formulating budgets, creating spaces for citizen participation, disclosing results, and granting general access to data and public information.

These findings are similar to the results obtained in the studies conducted by the CPCG on the state of transparency, accountability and fiscal responsibility at the level of the central government (2013, 2014).

2. There is no clear and concrete public policy that establishes the normative foundations of municipal transparency, accountability and fiscal responsibility. The scarce legal regulations refer to these principles in a disjointed manner.
3. When examining the legislation that creates Autonomous Municipalities, we find that it attempted to regulate accountability and fiscal responsibility as a measure to bring municipi-

palties closer to their citizens. However, it did not emphasize the rights of citizens to access public information, which promotes transparency, accountability and fiscal responsibility. Most municipalities have not recognized the aforesaid as a basis for their daily operations and initiatives.

To this situation, we must add the lack of an integrated legislation on transparency, access to information and accountability in public administration that enforces and establishes sanctions for non-compliance. It is necessary, therefore, to establish clear parameters of self-disclosure that avoid having to make claims through mandamus before the judicial forum in order to enforce the right of access to public information and the fiscal accountability provisions of the Autonomous Municipalities Act of 1991.

4. Following international trends, Puerto Rico's efforts to achieve a sound administration must involve all levels of government, and in turn be closely coordinated between the central

government and the municipal governments.

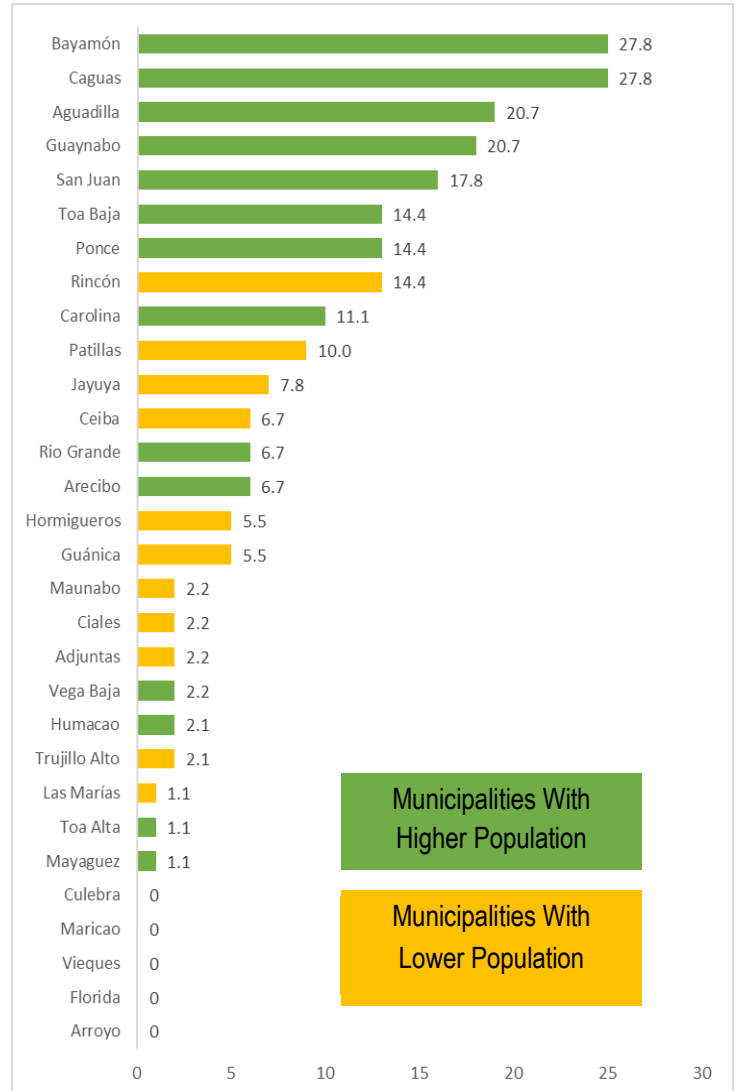
If the government of Puerto Rico, whether state or municipal, is subject to a common and coherent legal framework on governance, transparency, accountability and fiscal responsibility, a better public service must be provided, one that is more efficient, effective and superior in quality.

In times when resources are more limited, legislation on transparency and accountability is key to achieving economic development, prosperity and society's common good.

5. When examining the contents of Internet websites used by the municipalities to provide information to the public, we found that only four (4) municipalities, out of the thirty (30) we evaluated, obtained percentages higher than 20%. These are **Caguas, Bayamón, Aguadilla** and **Guaynabo**. This represents only 13.3% of the total municipalities evaluated.

Graph No. 1
Compliance of Municipalities with Transparency, Accountability and Fiscal
Responsibility Criteria
First Stage
Evaluation of the Content in Website ¹³

Municipalities	Total Score	Percentage %
Bayamón	25	27.8
Caguas	25	27.8
Aguadilla	19	20.7
Guaynabo	18	20.7
San Juan	16	17.8
Ponce	13	14.4
Rincón	13	14.4
Toa Baja	13	14.4
Carolina	10	11.1
Patillas	9	10.0
Jayuya	7	7.8
Arecibo	6	6.7
Rio Grande	6	6.7
Ceiba	6	6.7
Guánica	5	5.5
Hormigueros	5	5.5
Trujillo Alto	2	2.2
Humacao	2	2.2
Vega Baja	2	2.2
Adjuntas	2	2.2
Ciales	2	2.2
Maunabo	2	2.2
Mayagüez	1	1.1
Toa Alta	1	1.1
Las Marías	1	1.1
Arroyo	0	0
Florida	0	0
Vieques	0	0
Maricao	0	0
Culebra	0	0



¹³ Evaluation and revision October-November 2015

Municipal Transparency

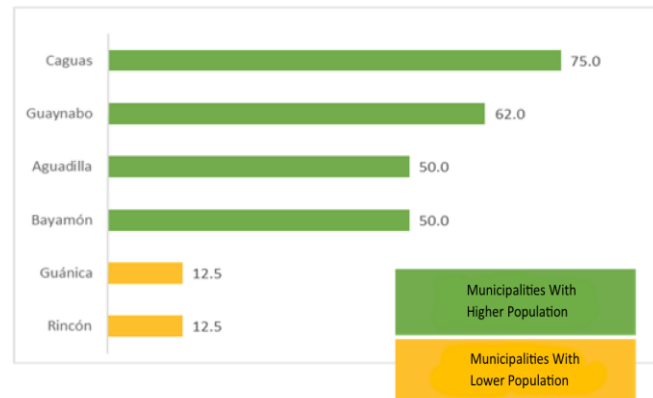
6. The results obtained in the study regarding the level of openness and readiness to practice transparency and accountability show that municipalities obtained the poorest results in the area of fiscal transparency.

The area with the highest scores was that of urbanism, public works and environment. In this area, four (4) municipalities achieved the highest scores in the evaluation process: **Caguas** (75%), **Guaynabo** (62%), **Aguadilla** (50%) and **Bayamón** (50%).

Graph No. 5
Compliance of Municipalities with Transparency, Accountability and Fiscal Responsibility Criteria
First Stage
Evaluation of the Content in Website

Area of result- Urbanism, Public Works and Environment
 (October-November 2015)

Municipalities	Total Score	Percentage %
Caguas	6	75.0
Guaynabo	5	62.0
Bayamón	4	50.0
Aguadilla	4	50.0
Guánica	1	12.5
Rincón	1	12.5



7. The results of the second stage (Request and Receipt of Documents, Reports and Data Requested) indicate that only two (2) municipalities showed the openness, willingness and readi-

ness to disclose the requested information and data: **Caguas** (60.9%) and **Aguadilla** (56.5%). The remaining twenty-eight (28) municipalities did not respond to the information and data request.

Graph No. 6
Compliance of the Municipalities with Transparency, Accountability and Fiscal Responsibility Criteria
Second Stage
Request and Receipt of Documents, Reports and Data Requested ¹⁴

Municipalities	Score
Caguas	60.9
Aguadilla	56.5
Bayamón	0
Guaynabo	0
San Juan	0
Toa Baja	0
Ponce	0
Rincón	0
Carolina	0
Patillas	0
Jayuya	0
Ceiba	0
Río Grande	0
Arecibo	0
Hormigueros	0
Guánica	0
Maunabo	0
Ciales	0
Adjuntas	0
Vega Baja	0
Humacao	0
Trujillo Alto	0
Las Marías	0
Toa Alta	0
Mayagüez	0
Culebra	0
Maricao	0
Vieques	0
Florida	0
Arroyo	0



8. There are no specific, coherent and consistent criteria that define the content and quality of the information that should be disclosed in the municipalities' websites. The analysis of the content found therein shows that what is mostly published is irrelevant

data and information, and itineraries for entertainment activities.

9. When analyzing the results obtained by the municipalities evaluated in the study regarding their readiness for transparency,

¹⁴ Request and receipt of documents, reports and data requested November 2015-January 2016.

accountability and government fiscal responsibility we found that the municipalities of **Caguas** and **Aguadilla** obtained the highest scores in all three (3) of the evaluations: content of website, (2) receipt of the requested documents, and (3) level of compliance with the fiscal responsibility criteria. No municipality fully complied with the international criteria used to analyze and evaluate transparency and accountability practices at the municipal level.

10. The study shows that municipalities with higher population obtain the highest scores in each evaluation criteria. Regarding the evaluation of the website content, the ten (10) highest scores belong to eight (8) of the municipalities with the largest amount of population and resources (80%), **Caguas** and **Aguadilla** being the ones with the highest scores. The municipalities with lower population within this group are **Rincón** and **Patillas**.
11. The results indicate that municipalities with limited amount of resources and lower population hold the ten (10) lowest scores. In turn, three (3) of the municipalities with higher population obtained some of the lowest scores: **Mayagüez**, **Toa Alta** and **Humacao**.
12. The study also found that seven (7) municipalities do not meet any of the four criteria established for

measuring fiscal responsibility practices. Three of these (42.9%) are municipalities with higher population, namely **Ponce**, **San Juan** and **Trujillo Alto**. The four (4) municipalities with lower population within this group are **Ceiba**, **Ciales**, **Florida** and **Mauabo**. These represent 57.1% of the municipalities that do not meet any of the four criteria.

Accountability in Municipal Affairs

13. Regarding accountability, the municipal administrations in Puerto Rico show different degrees of compliance with this important principle of transparent and open governance.

The study found that there are serious deficiencies in the development of strategic plans and their disclosure to the public as the first instance of accountability.

14. Not all forms of accountability are enacted in the Autonomous Municipalities Act of 1991, but the annual budget results and outcomes are included. The mayors fully comply with the presentation of both reports, but in most cases do not allow their free inspection, even though the law requires it. These documents are of a public nature, which is why citizens have the right to inspect them without the need to justify their request.
15. When examining the provisions of the Autonomous Municipalities Act of 1991 regarding internal and ex-

ternal audits as an instance of accountability, we found that these are performed by different Certified Public Accountants firms, namely the internal audit, the external audit and the audit performed by the Office of the Comptroller of Puerto Rico.

The Autonomous Municipalities Act regulates the first two audits, and the Constitution of Puerto Rico regulates the third. Such audits are performed in all of the municipalities, but only those performed by the Comptroller's Office are disclosed.

Both internal and external audits are considered confidential and remain as such. The lack of disclosure is a clear breach of the legal precept that requires their placement in the municipalities' bulletin boards.

A priori, it is possible to infer that mayors in some sense feel threatened regarding the compliance with this obligation, since these audits illustrate their capabilities to manage municipal finances.

16. A key aspect arising from the analysis of the current legislation

relates to the accountability of the municipal official who is responsible for the submittal of his personal financial information to the Office of Government Ethics.

In these reports, both mayors and municipal officials whose functions are directly related to the use of public funds, have to report their personal finances and those of the members of their family unit.

These reports are considered confidential, and can only be accessed if there is evidence of the relevance of the report in any administrative investigation or legal process.

Fiscal Responsibility

17. The evaluation of the Audited Financial Statements of the selected municipalities points to three (3) municipalities with adequate scores related to fiscal responsibility practices: **Guaynabo**, **Hormigueros** and **Aguadilla**.

It should be noted that Hormigueros is one of the municipalities with lower population.

Graph No. 7
Analysis of the Municipal Financial Statements to Determine the
Reached Level of Fiscal Responsibility 2010-2014

RESULTS

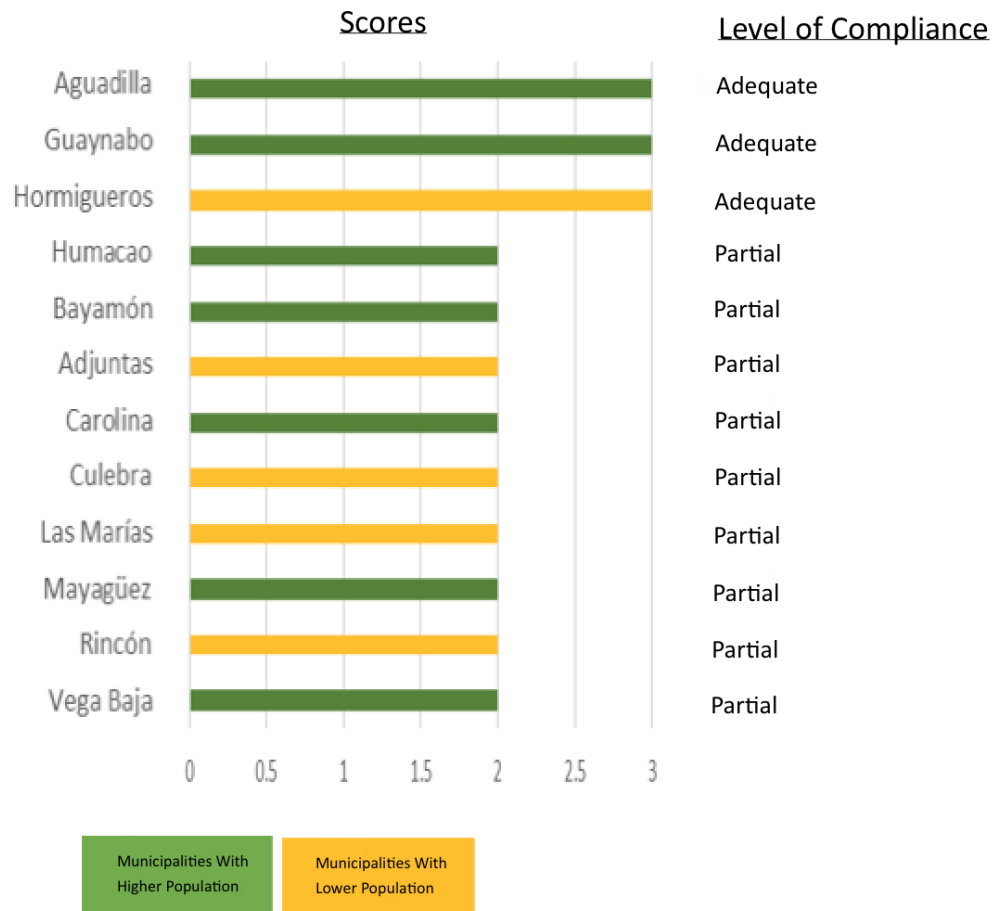


Table 1
Consolidated Results of the Evaluation
Of Compliance With
Fiscal Responsibility Criteria

Municipalities With Higher Population	Criteria (Score)				Total
	I	II	III	IV	
Aguadilla	0	1	1	1	3
Guaynabo	1	0	1	1	3
Humacao	0	0	1	1	2
Bayamón	0	0	1	1	2
Carolina	0	0	1	1	2
Mayagüez	0	1	1	0	2
Vega Baja	1	0	0	1	2
Arecibo	0	0	0	1	1
Caguas	0	0	0	1	1
Río Grande	0	0	1	0	1
Toa Baja	0	0	0	1	1
Toa Alta	0	0	1	0	1
Ponce	0	0	0	0	0
San Juan	0	0	0	0	0
Trujillo Alto	0	0	0	0	0

I	II	III	IV
The municipality complied with the authorized budget without incurring in variations greater than 5% in at least four (4) of the five (5) years evaluated.	The municipality generated adjusted income equal to or greater than its actual disbursements in four (4) of the five (5) years analyzed.	The municipality did not incur in loans (Bonds and Notes) to cover operational expenses in at least four (4) of the five (5) years analyzed.	The total debt in long-term bonds and notes was not increased disproportionately to the adjusted income.

Table 2
Consolidated Results of the Evaluation
Of Compliance With
Fiscal Responsibility Criteria

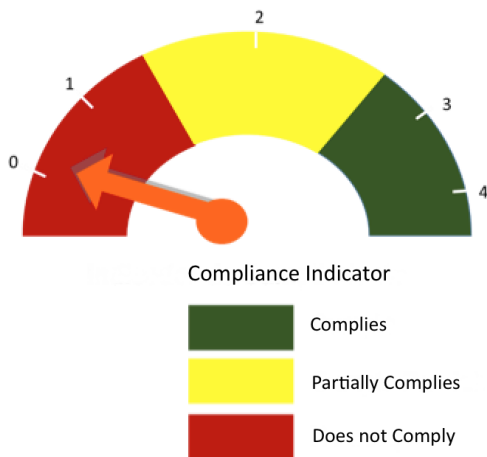
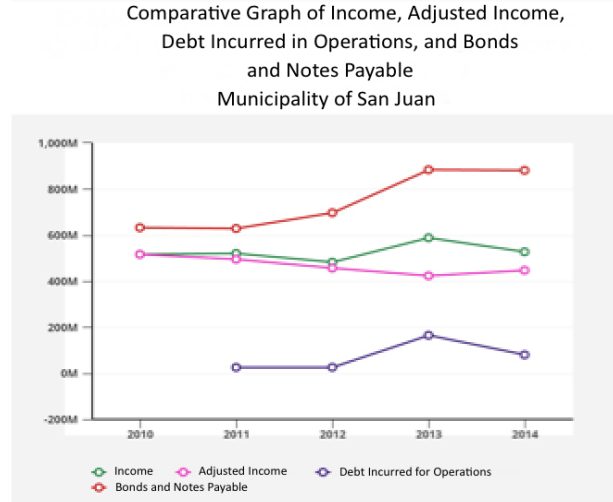
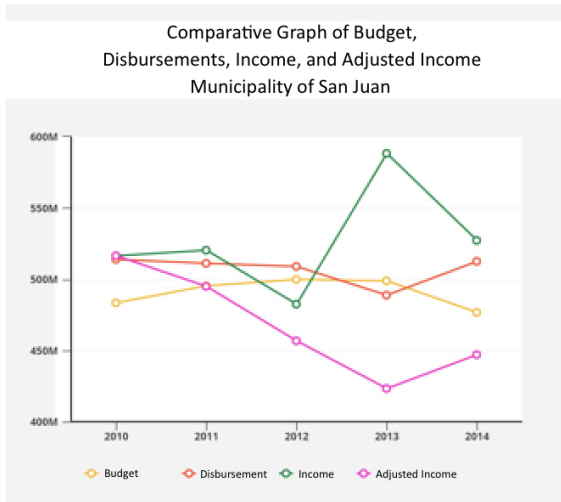
Municipalities With Lower Population	Criteria (Score)				Total
	I	II	III	IV	
Hormigueros	0	1	1	1	3
Adjuntas	0	1	1	0	2
Culebra	0	0	1	1	2
Las Marías	0	0	1	1	2
Rincón	0	1	1	0	2
Arroyo	0	0	0	1	1
Guánica	0	0	1	0	1
Jayuya	0	0	1	0	1
Maricao	0	0	1	0	1
Patillas	0	0	1	0	1
Vieques	0	0	1	0	1
Ceiba	0	0	0	0	0
Ciales	0	0	0	0	0
Florida	0	0	0	0	0
Maunabo	0	0	0	0	0

I	II	III	IV
The municipality complied with the authorized budget without incurring in variations greater than 5% in at least four (4) of the five (5) years evaluated.	The municipality generated adjusted income equal to or greater than its actual disbursements in four (4) of the five (5) years analyzed.	The municipality did not incur in loans (Bonds and Notes) to cover operational expenses in at least four (4) of the five (5) years analyzed.	The total debt in long-term bonds and notes was not increased disproportionately to the adjusted income.

RESULT CHART: ANALYSIS OF THE MUNICIPAL FINANCIAL STATEMENTS 2010 TO 2014

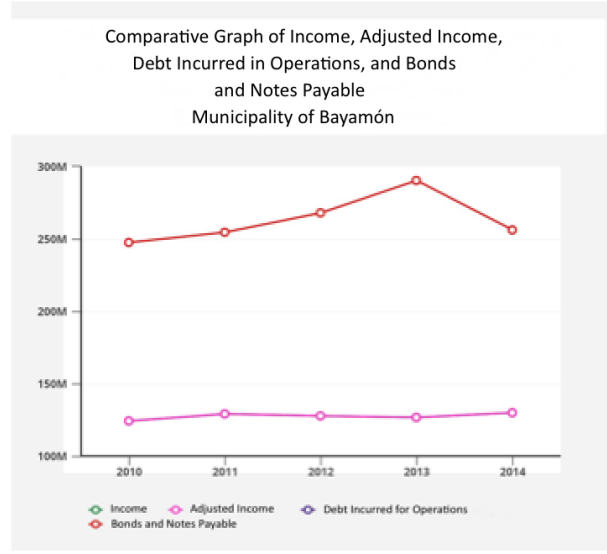
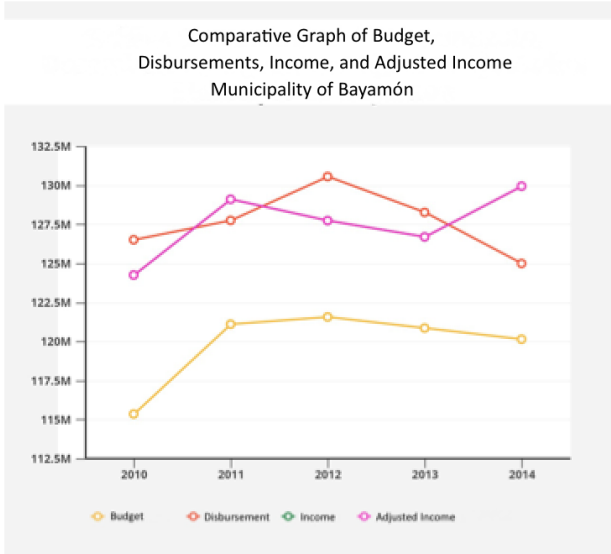
MUNICIPALITIES WITH HIGHER POPULATION

1. Dashboard Municipality of San Juan



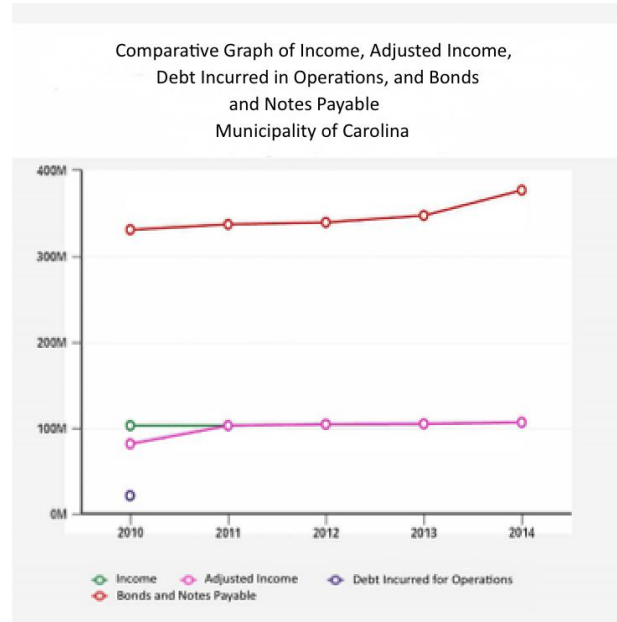
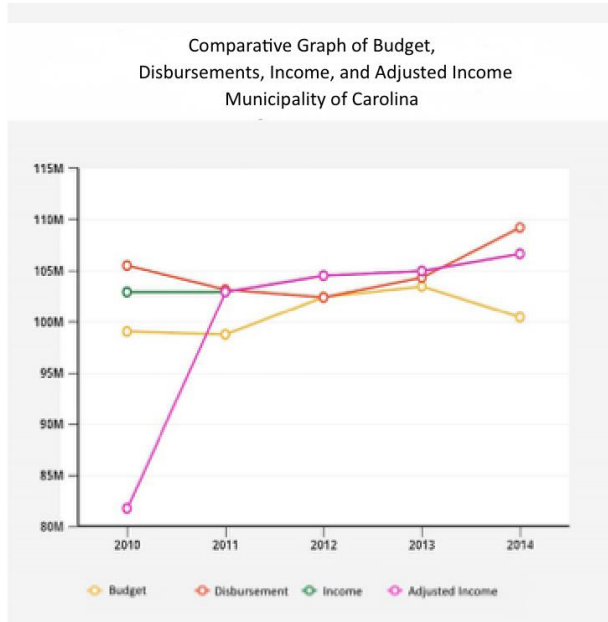
The municipal budget increased from \$483.4 in 2010 to \$499.8 million in 2012, and in 2014 decreased to \$476.7 million, which is equivalent to a 1.4% reduction for the period. From 2010 to 2012, and in 2014, the actual disbursement was greater than what was budgeted. Adjusted income was less than what was budgeted in four (4) of the five (5) years analyzed. In 2010, 2012, 2013, and 2014, the adjusted income and actual disbursements exceeded 5% of variance against what was budgeted. The municipality incurred in debt from 2011 to 2014 in order to cover operating expenses, for a total amount of \$296.3 million. Long-term debt in Bonds and Notes increased from \$632.3 million to \$881.3 million, a 39.4% increase, while adjusted income decreased from \$516.4 million in 2010 to \$447.0 million in 2014, a 13.4% reduction.

2. Dashboard Municipality of Bayamón



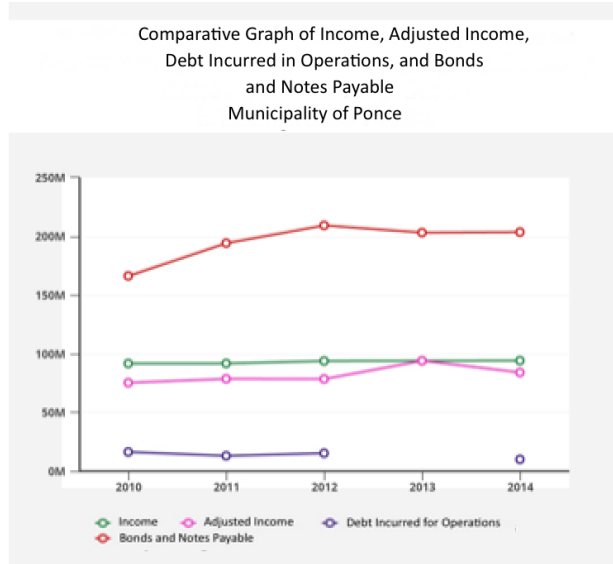
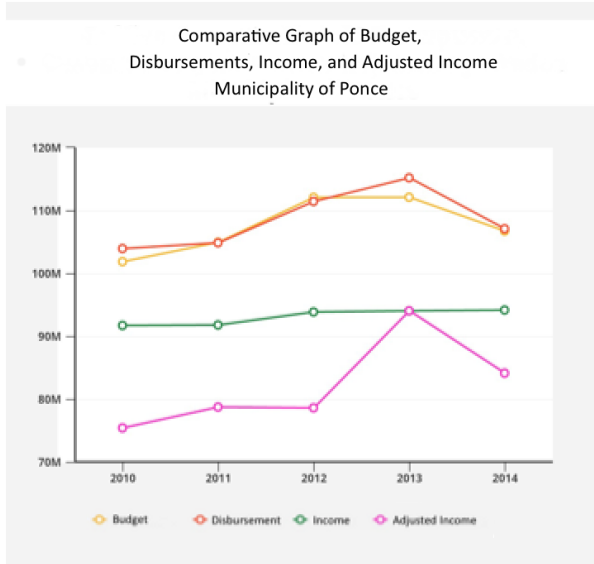
The municipal budget increased from \$115.4 in 2010 to \$121.6 million in 2012, and in 2014 it decreased to \$120.1. From 2010 to 2012, and in 2013 the actual disbursement was greater than the adjusted income. Income and disbursements were higher than the budgeted figures by more than 5% of variance every year analyzed. Adjusted income increased from \$124.2 million in 2010 to \$129.9 million in 2014, a 4.6% increase. Long-term debt in Bonds and Notes increased from \$247.6 million in 2010 to \$290.4 million in 2013, and then decreased to \$256.2 in 2014. This represents a 3.5% increase for the period. The municipality did not incur in debt to cover operational expenses during the analyzed period.

3. Dashboard Municipality of Carolina



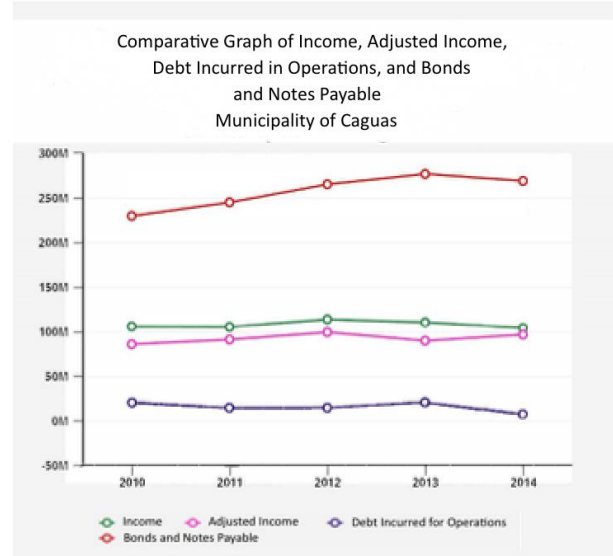
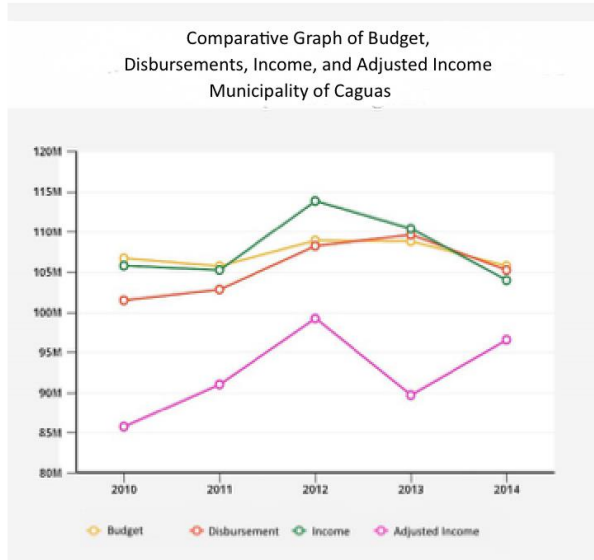
The municipal budget increased from \$99 million in 2010 to \$100.4 million in 2014. Actual disbursement always exceeded the budgeted figures, and on two occasions by more than 5% of variance. From 2010 to 2011, and in 2014, the actual disbursement was greater than the adjusted income. Long-term debt in Bonds and Notes increased from \$331 million in 2010 to \$376.9 million, a 13.9% increase. In turn, the adjusted income of the municipality increased from \$81.7 million in 2010 to \$106.6 million, a 30.5% increase. The municipality incurred in debt to cover operational expenses only in 2010.

4. Dashboard Municipality of Ponce



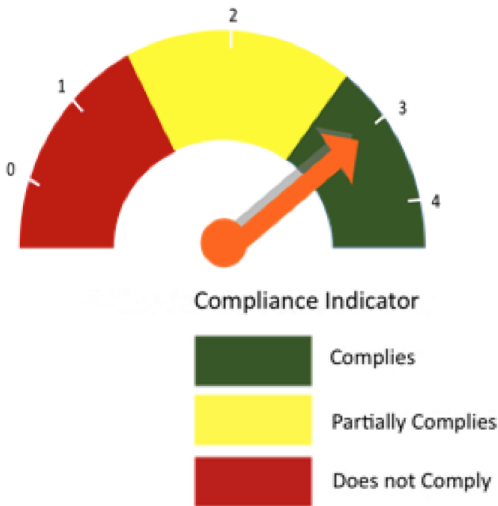
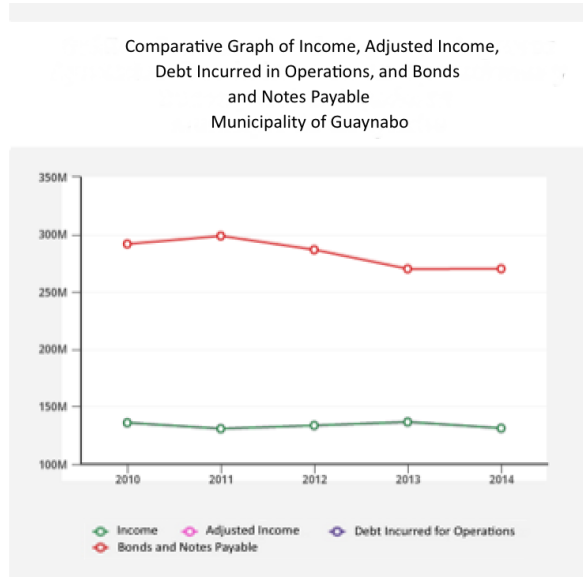
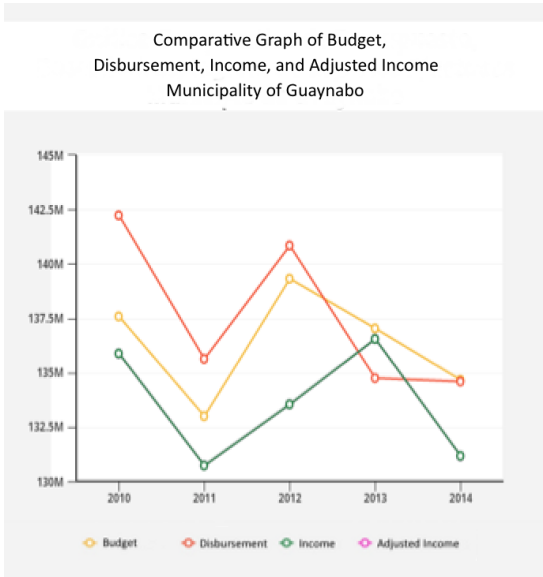
The municipal budget increased in 2010 from \$101.9 million to \$112.1 million in 2013 and later decreased to \$106.7 million in 2014, a 4.7% increase for the period. Adjusted income was less than what was budgeted for every year analyzed, and with a difference higher than 5% of variance. Actual disbursement was greater than budgeted in 2010, 2014, and 2014. The adjusted income was lower than disbursed every year evaluated. The municipality incurred in debt to cover operating expenses in the years 2010, 2011, 2012 and 2014, for a total amount of \$54.6 million. Long-term Bonds and Notes increased from \$166.4 million in 2010 to \$203.5 million, a 22.3% increase. This increase in long-term debt in Bonds and Notes contrasts with the 11.5% increase in adjusted income.

5. Dashboard Municipality of Caguas



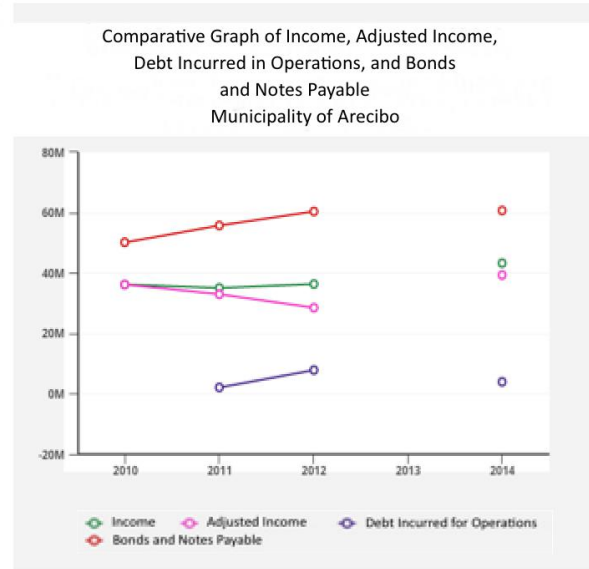
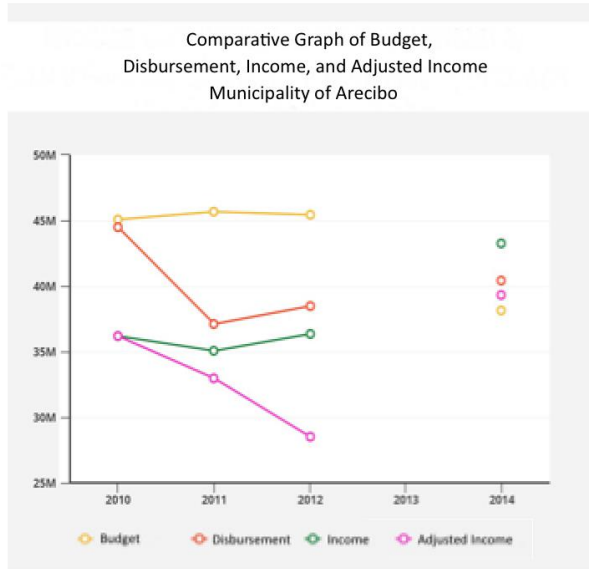
The municipal budget increased to \$106.7 million in 2010 and to \$108.9 million in 2013, decreasing to \$105.7 in 2014, a reduction of less than 1% for the period. The actual disbursement was less than budgeted in four (4) of the years we analyzed, except in 2013 when it exceeded by some \$800 thousand. The adjusted income differed from what was budgeted by more than 5% every year analyzed. The adjusted income was less than the disbursements in every evaluated year, except in 2014. The municipality incurred in debt to cover operational expenses in each of the evaluated years. Long-term debt in Bonds and Notes increased from \$229.7 million in 2010 to \$268.9 million in 2014, a 17% increase and its adjusted income increased from \$85.7 million in 2010 to \$96.5 million in 2014, a 12.6% increase.

6. Dashboard Municipality of Guaynabo



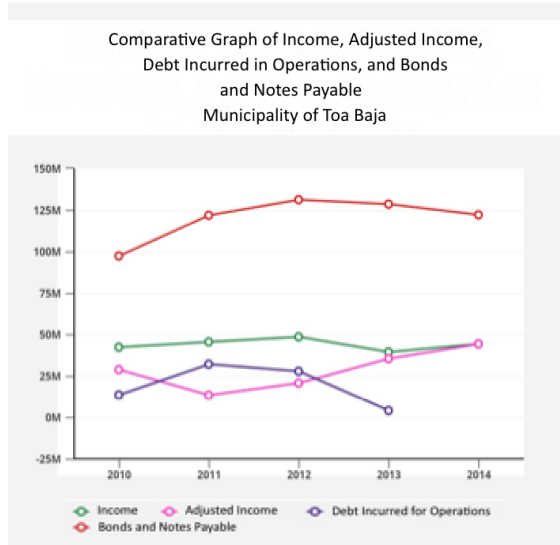
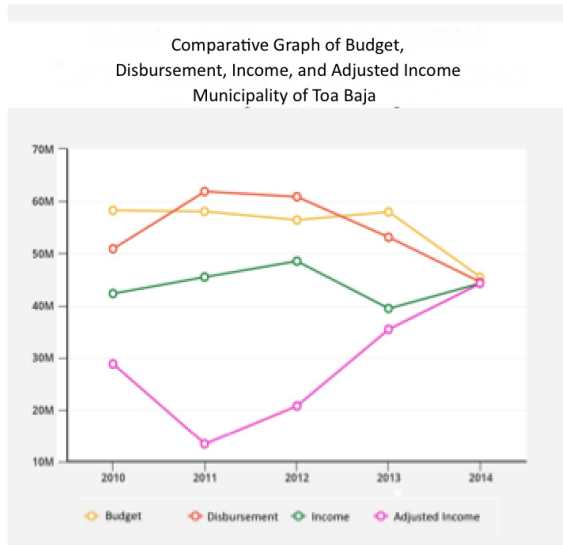
The municipal budget decreased from \$137.6 million in 2010 to \$134.7 million in 2014. The actual disbursement was greater than the budget for the years 2010, 2011 y 2012. The adjusted income was less than what was disbursed in 2010, 2011, 2012 and 2014. Every year, the variation of the actual disbursements and adjusted income compared to the budget was less than 5%. In no year did the municipality incur in debt to cover operational expenses. Long-term debt in Bonds and Notes decreased from \$291.7 million in 2010 to \$270.2 million in 2014, a 7.4% reduction. Adjusted income decreased from \$135.9 million in 2010 to \$131.2 million in 2014, a 3.5% reduction.

7. Result Chart Municipality of Arecibo



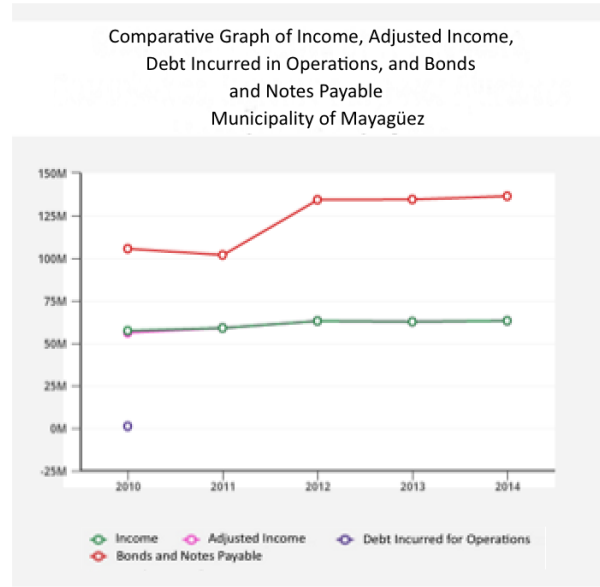
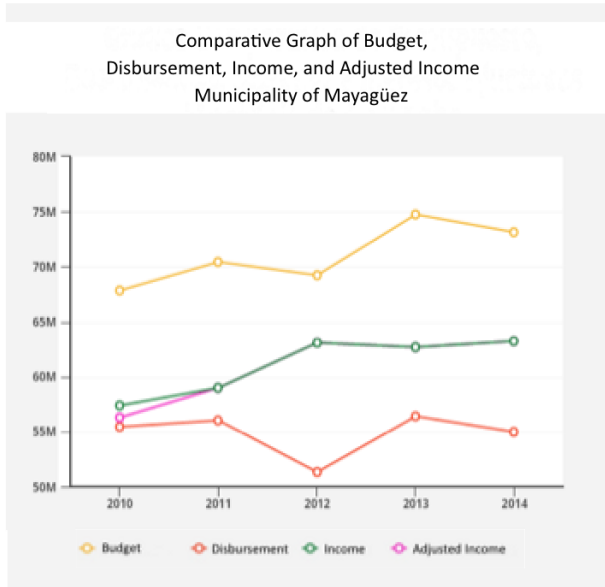
The municipal budget was reduced from \$45.1 million in 2010 to \$38.1 million in 2014. The actual disbursement was less than budgeted for 2010, 2011 and 2012, but not for 2014. We do not have financial information for 2013. The adjusted income was less than disbursed for 2010, 2011, 2012 and 2014. The actual disbursements and adjusted income showed variations greater than 5% when compared to what was budgeted from 2010 to 2012. We do not have financial data for 2013. The municipality incurred in debt to cover operational expenses in 2011, 2012 and 2014, for a total amount of \$13.9 million. Long-term debt in Bonds and Notes increased from \$50.1 million in 2010 to \$60.7 million in 2014, a 10.6% increase. The adjusted income decreased from \$36.1 million in 2010 to \$28.5 million in 2012, and later increased to \$39.3 million in 2014, an 8.9% increase for the analyzed period.

8. Dashboard Municipality of Toa Baja



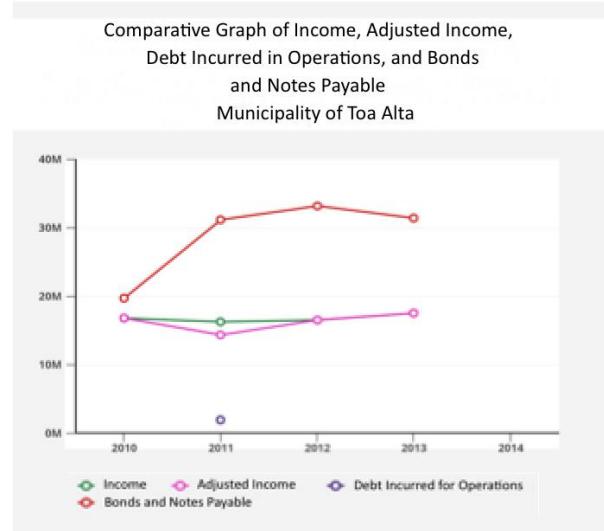
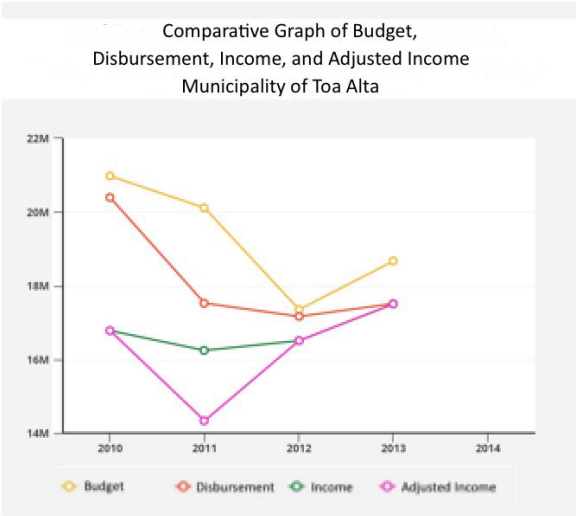
The municipal budget was reduced from \$58.2 million in 2010 to \$45.4 million in 2014, a 22% reduction. The actual disbursement was less than budgeted in 2010, 2013 and 2014. In 2011 and 2012, the actual disbursement was greater than budgeted. From 2010 to 2014, the municipality's adjusted income was less than its budget. The adjusted income was less than what was disbursed from 2010 to 2014. The municipality incurred in debt to cover operational expenses from 2010 to 2013, for a total amount of \$76.5 million. Long-term debt in Bonds and Notes increased from \$97.3 million in 2010 to \$122.1 million in 2014, a 25.5% increase. The adjusted income increased from \$28.8 million in 2010 to \$44.3 million in 2014, a 53.8% increase.

9. Dashboard Municipality of Mayagüez



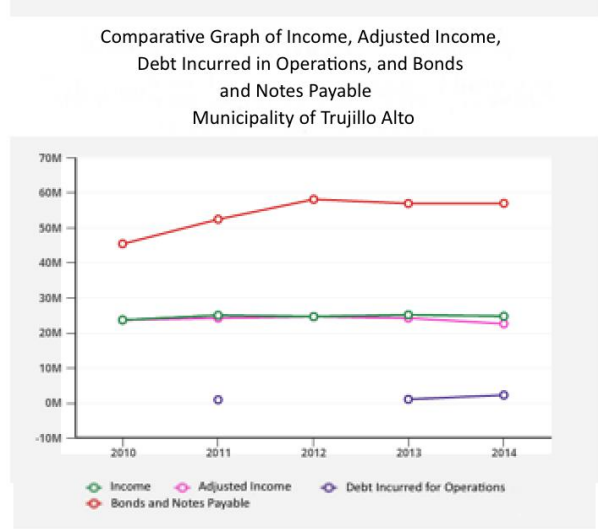
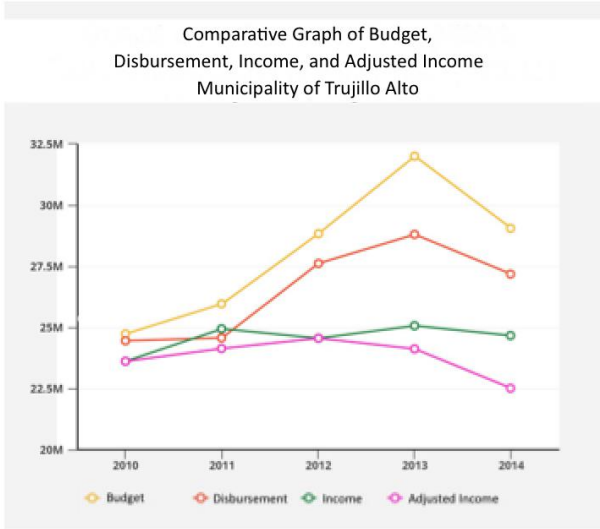
The municipal budget increased from \$67.8 million in 2010 to \$73.1 million in 2014. The actual disbursement was less than budgeted each of the years analyzed, with a difference greater than 5%. The adjusted income was less than budgeted, with a difference greater than 5%. The adjusted income was less than the actual disbursements in each of the analyzed years. Debt was issued to cover operational expenses in 2010, but not so from 2011 to 2014. Long-term debt in Bonds and Notes increased from \$105.6 million in 2010 to \$136.4 million in 2014, a 29.1% increase. Adjusted income increased from \$53.6 million to \$63.2 million, a 17.9% increase.

10. Dashboard Municipality of Toa Alta



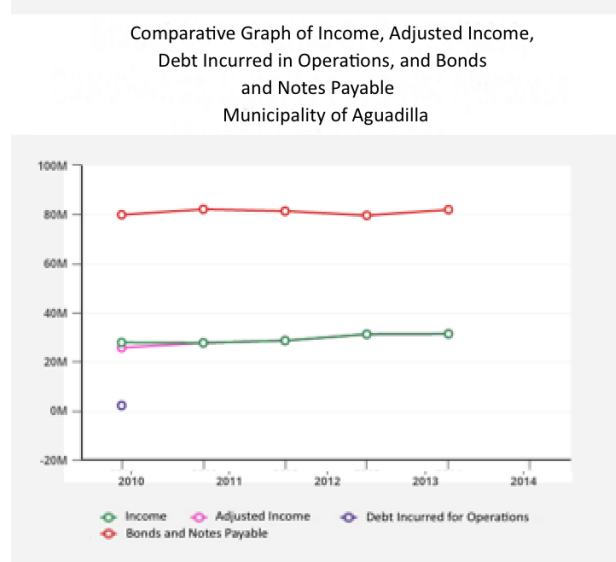
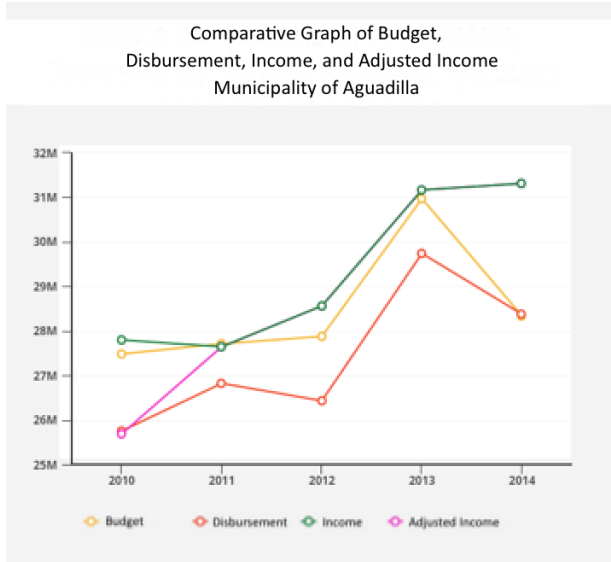
The municipal budget was reduced from \$20.9 million in 2010 to \$18.7 million in 2013. There is no financial information for 2014. Actual disbursement was less than budgeted for the years 2010 to 2013. In 2011 and 2013, the variation of actual disbursements was greater than 5% when compared to what was budgeted. The adjusted income was less than the actual disbursements in each of the years analyzed. The municipality incurred in debt to cover operating expenses in 2011, but not so in 2010, 2012 and 2013. Long-term debt in Bonds and Notes increased from \$19.7 million in 2010 to \$31.4 million in 2013, a 59.4% increase. Adjusted income increased from \$16.8 million in 2010 to \$17.5 million in 2013, a 4.2% increase.

11. Dashboard Municipality of Trujillo Alto



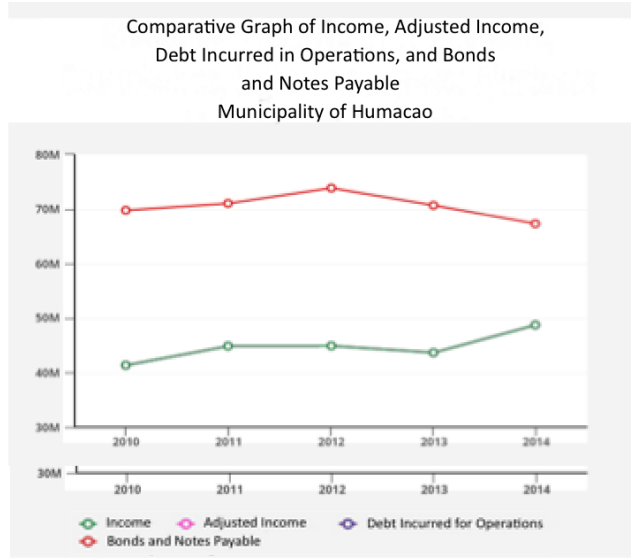
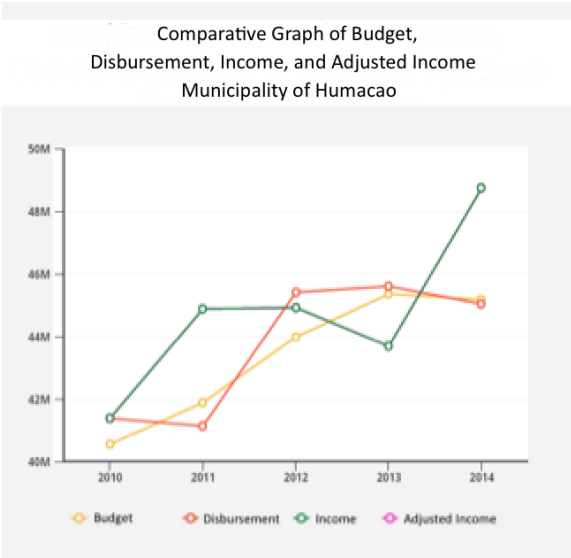
The municipal budget increased from \$24.7 million in 2010 to \$29.1 million in 2014. Actual disbursement was less than budgeted for all years analyzed, varying more than 5%. Likewise, adjusted income varied in each year by more than 5%. The adjusted income was less than the actual disbursement for all years analyzed. The municipality incurred in debt to cover operational expenses in 2011, 2013, and 2014, for a total amount of \$3.9 million. Long-term debt in Bonds and Notes increased from \$45.4 million in 2010 to \$56.9 million in 2014, a 25.3% increase. Adjusted income increased from \$23.6 million in 2010 to \$24.6 million in 2012, and later decreased to \$22.5 million in 2014. This represents an 8.5% reduction for the period.

12. Dashboard Municipality of Aguadilla



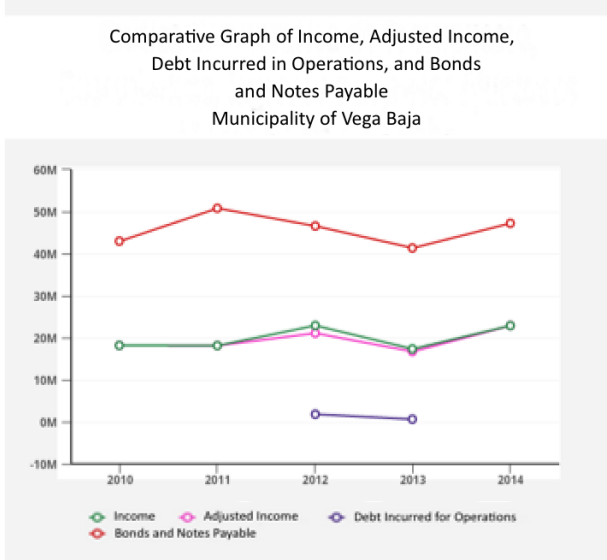
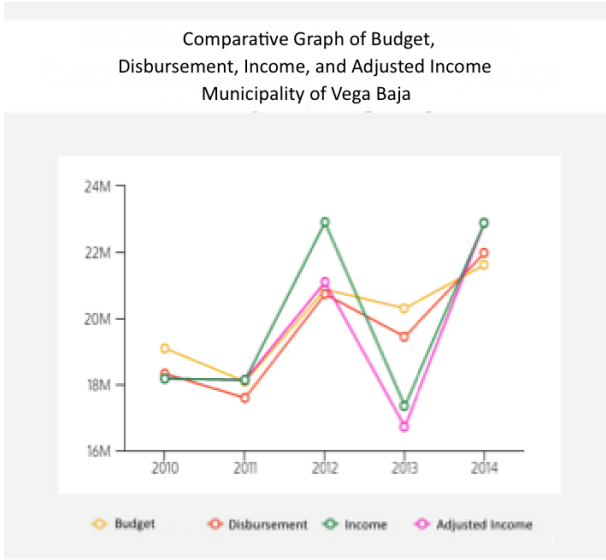
The municipal budget increased from \$27.5 million in 2010 to \$28.3 million in 2014. The actual disbursement was less than budgeted for 2010, 2011, 2012, and 2013. Differences were greater than 5% on two occasions. The adjusted income was greater than the actual disbursement from 2011 to 2014. The municipality incurred in debt to cover operational expenses in 2010. Long-term debt in Bonds and Notes increased from \$79.9 million in 2010 to \$81.9 million in 2014, a 2.5% increase. Adjusted income increased from \$25.7 million in 2010 to \$31.3 million in 2014, a 21.8% increase.

13. Dashboard Municipality of Humacao



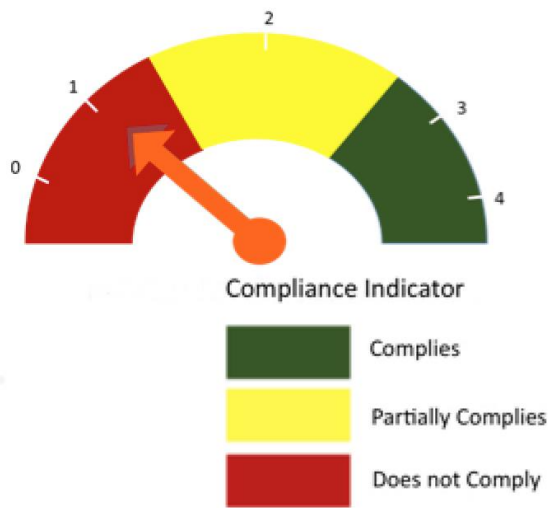
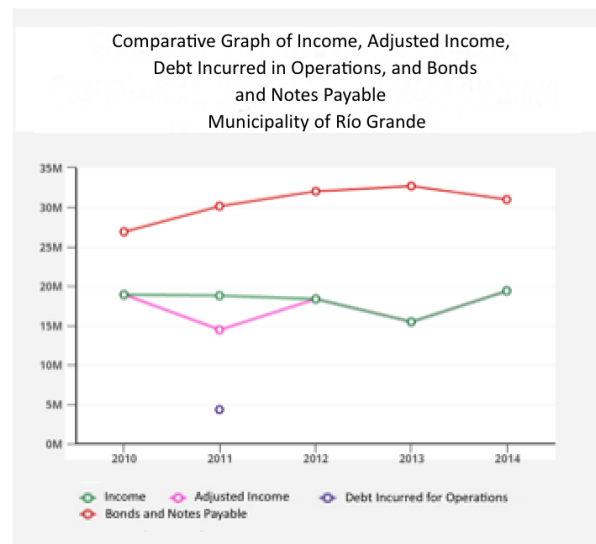
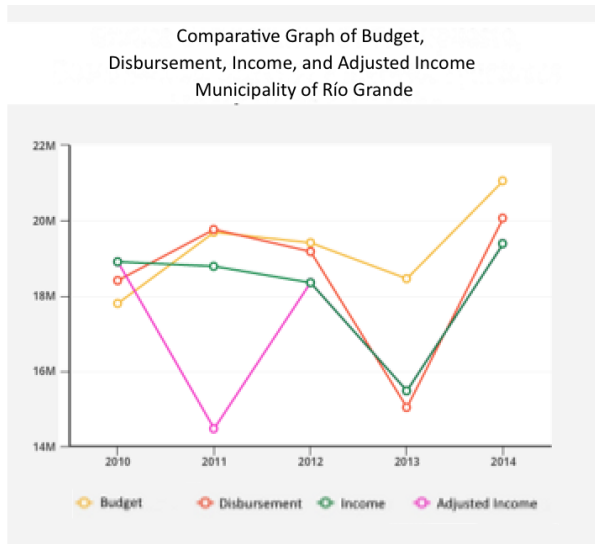
The municipal budget increased from \$40.5 million in 2010 to \$45.2 million in 2014. The actual disbursement was greater than budgeted in 2010, 2012 y 2013. The adjusted income was greater than the actual disbursement in 2010, 2011 and 2014. The adjusted income and actual disbursements exceeded the 5% budget variance in 2011. The municipality did not incur in debt to cover operational expenses during the years analyzed. Long-term debt in Bonds and Notes decreased from \$69.8 million in 2010 to \$67.3 million in 2014, a 3.6% reduction. Adjusted income increased from \$41.4 million in 2010 to \$48.7 million in 2014, a 17.6% increase.

14. Dashboard Municipality of Vega Baja



The municipal budget increased from \$19.1 million in 2010 to \$21.6 million in 2014. The actual disbursement was less than budgeted for 2010, 2011, 2012 and 2013. The adjusted income was greater than the actual disbursement in 2011, 2012 and 2014. The adjusted income exceeded the 5% budget variance in 2013. The municipality incurred in debt to cover operational expenses in 2012 and 2013, for a total amount of \$2.4 million. Long-term debt in Bonds and Notes increased from \$43.0 million in 2010 to \$47.2 million in 2014, a 9.8% increase. Adjusted income increased from \$18.2 million in 2010 to \$22.9 million in 2014, a 25.8% increase.

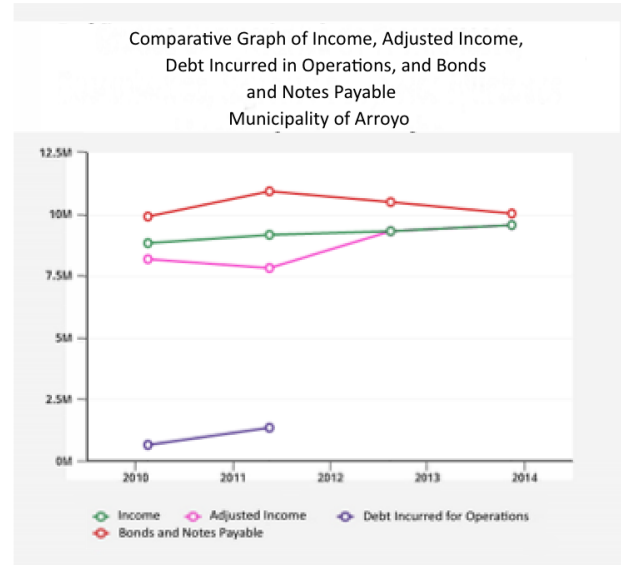
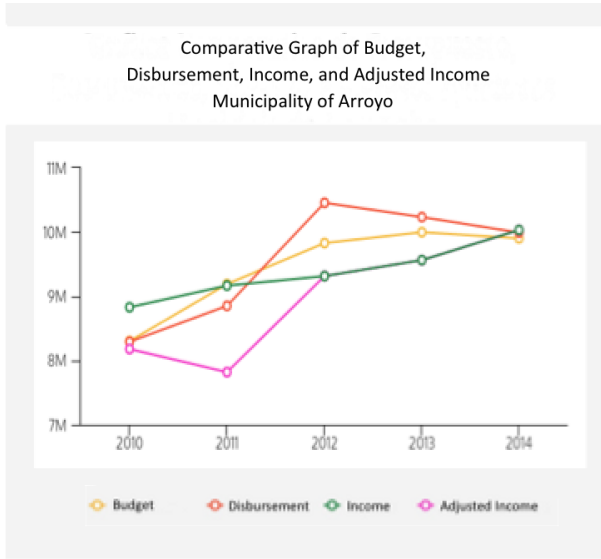
15. Dashboard Municipality of Río Grande



The municipal budget increased from \$17.8 million in 2010 to \$21.1 million in 2014. The actual disbursement was less than budgeted for 2012, 2013 and 2014. Adjusted income was less than what was disbursed in 2011, 2012 and 2014. Every year analyzed, the adjusted income exceeded the 5% variance when compared to the budget. The municipality incurred in debt to cover operational expenses in 2011, for a total amount of \$4.3 million. Long-term debt in Bonds and Notes increased from \$26.9 million in 2010 to \$31.0 million in 2014, a 15.2% increase. Adjusted income increased from \$18.9 million in 2010 to \$19.4 million in 2014, a 2.6% increase.

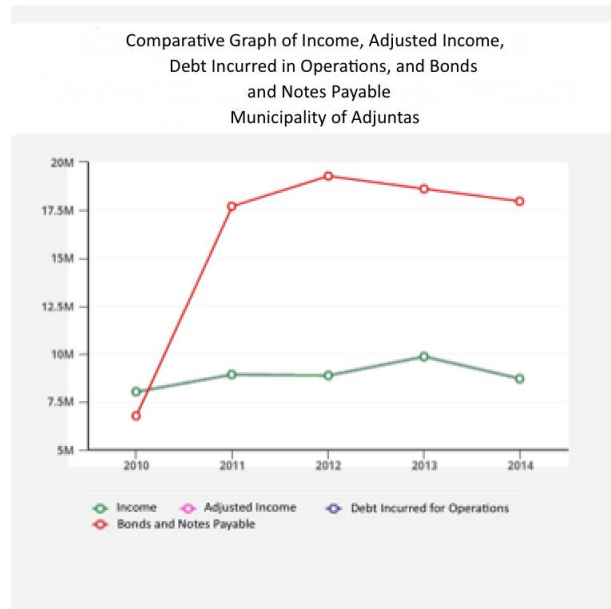
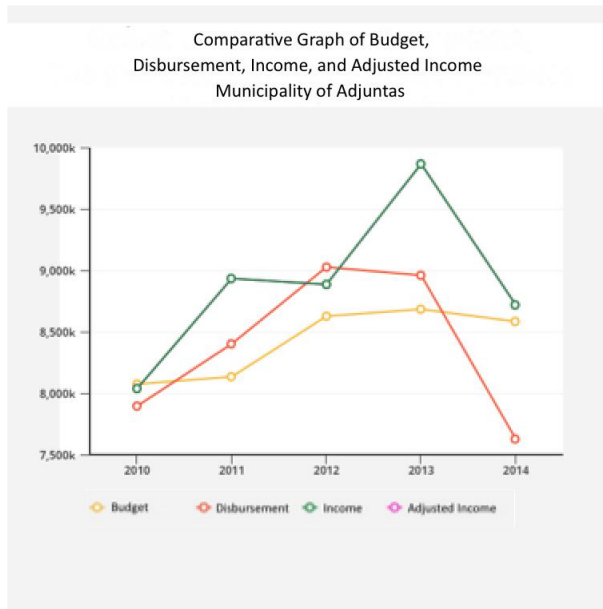
MUNICIPALITIES WITH LOWER POPULATION

16. Dashboard Municipality of Arroyo



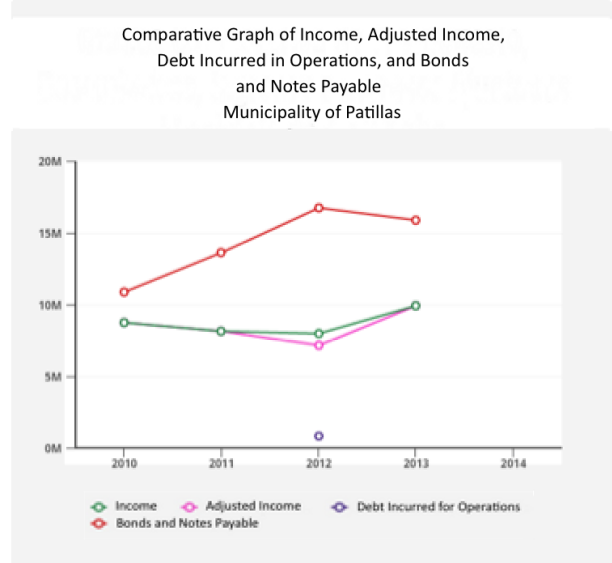
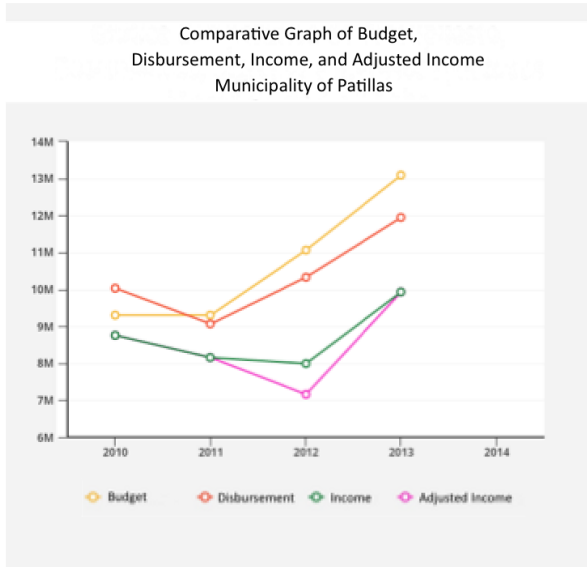
The municipal budget increased from \$8.3 million in 2010 to \$9.9 million in 2014. The actual disbursement was greater than budgeted in 2012, 2013 and 2014. From 2010 to 2013, the adjusted income was less than what was disbursed. In 2011 and 2012, adjusted income exceeded the 5% budget variance. The municipality incurred in debt to cover operational expenses in 2010 and 2011, for a total amount of \$2.0 million. Long-term debt in Bonds and Notes increased from \$9.9 million in 2010 to \$10.9 million in 2011, and later decreased to \$9.6 million in 2014, a 3% reduction for the analyzed period. Adjusted income increased from \$8.2 in 2010 to \$10.0 million in 2014, a 22% increase.

17. Dashboard Municipality of Adjuntas



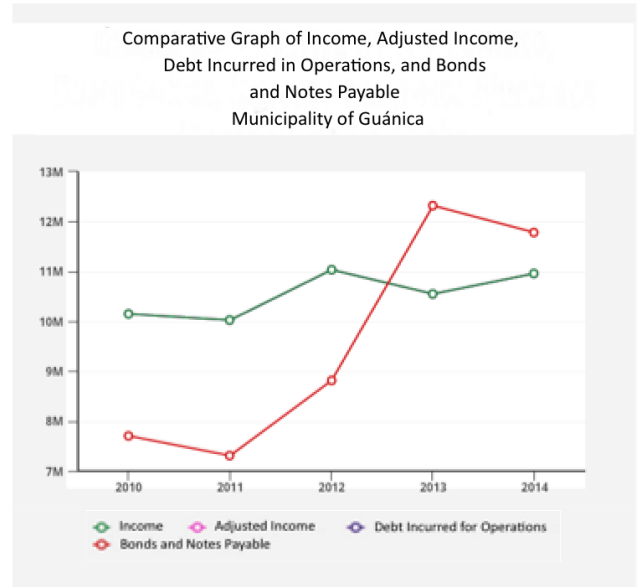
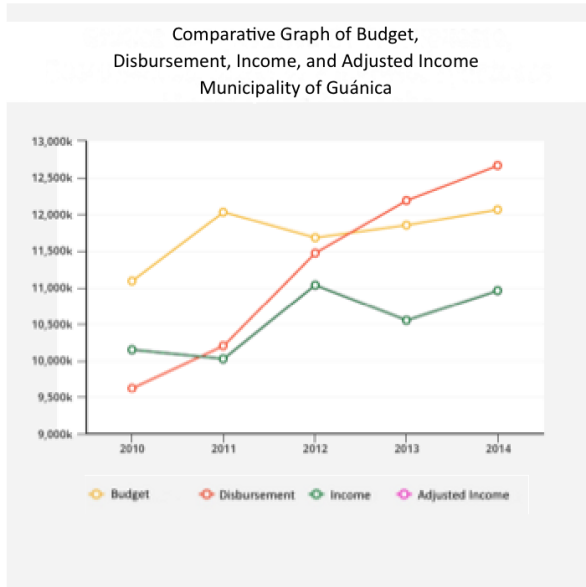
The municipal budget increased from \$8.1 million in 2010 to \$8.6 million in 2014. The actual disbursement was greater than budgeted in 2011, 2012 and 2013. The adjusted income was greater than what was disbursed in 2010, 2011, 2013 and 2014. Adjusted income exceeded the 5% budget variance in 2011 and 2013. The municipality did not incur in debt to cover operational expenses during the analyzed period. Long-term debt in Bonds and Notes increased from \$6.8 million in 2010 to \$18 million in 2014, a 165% increase. Adjusted income increased from \$8 million in 2010 to \$8.7 million in 2014, an 8.8% increase.

18. Dashboard Municipality of Patillas



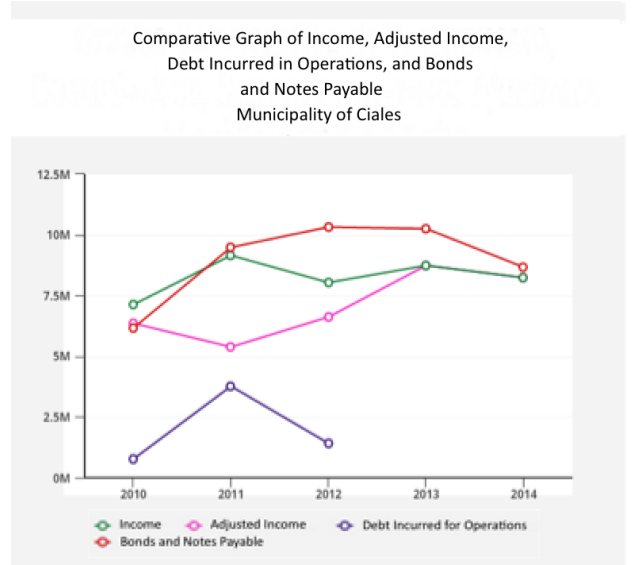
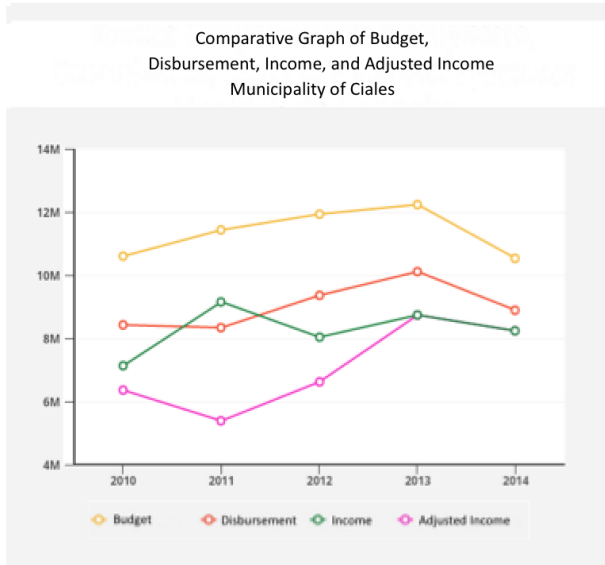
The municipal budget increased from \$9.3 million in 2010 to \$13.1 million in 2013. There is no financial information for 2014. The actual disbursement was less than budgeted in 2011, 2012 and 2013. The adjusted income was less than what was disbursed in each of the four (4) years we analyzed. The adjusted income and actual disbursements exceeded the 5% budget variance in each of the four (4) years we analyzed. The municipality incurred in debt to cover operational expenses in 2012, for a total amount of \$835 thousand. Long-term debt in Bonds and Notes increased from \$10.9 million in 2010 to \$15.9 million in 2013, a 45.9% increase. Adjusted income decreased from \$8.8 million in 2010 to \$7.2 million in 2012, and later increased in 2013 to \$9.9 million. This represents a 12.5% increase for the period.

19. Dashboard Municipality of Guánica



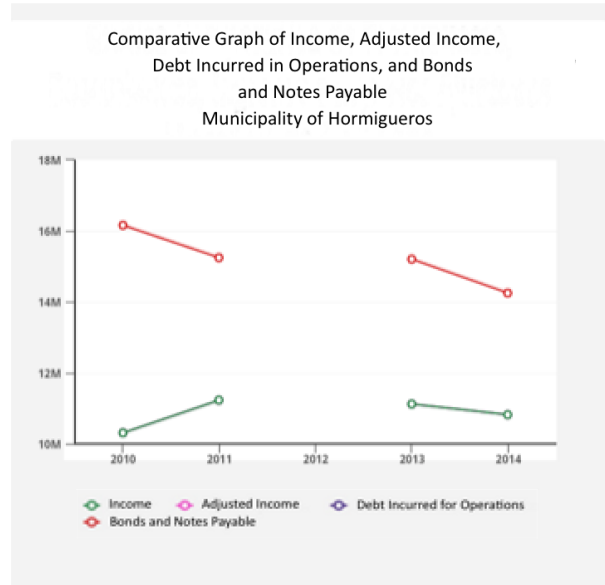
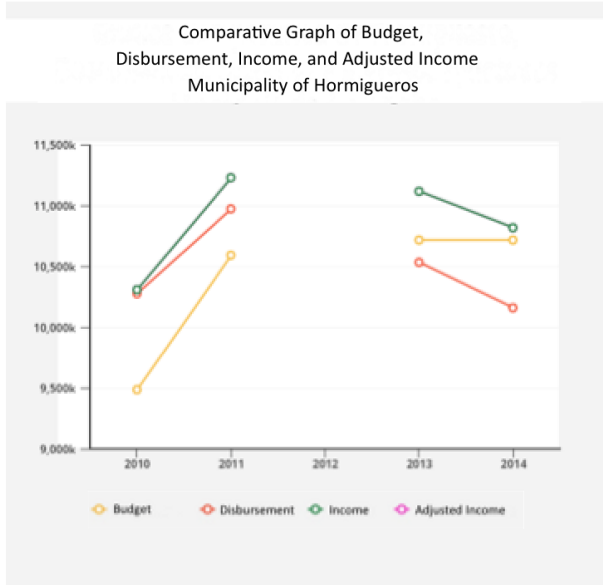
The municipal budget increased from \$11.1 million in 2010 to \$12.1 million in 2014. The actual disbursement was less than budgeted in 2010, 2011 and 2012. The adjusted income was less than what was disbursed in 2011, 2012, 2013 and 2014. Adjusted income and actual disbursements exceeded the 5% budget variance in each of the years we analyzed. The municipality did not incur in debt to cover operational expenses during the analyzed period. Long-term debt in Bonds and Notes increased from \$77.1 million in 2010 to \$117.8 million in 2014, a 52.8% increase. Adjusted income increased from \$10.1 million in 2010 to \$11 million in 2014, an 8.9% increase.

20. Dashboard Municipality of Ciales



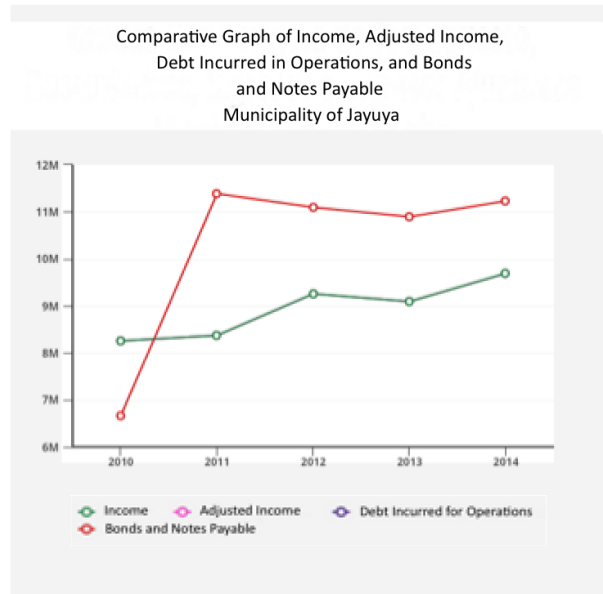
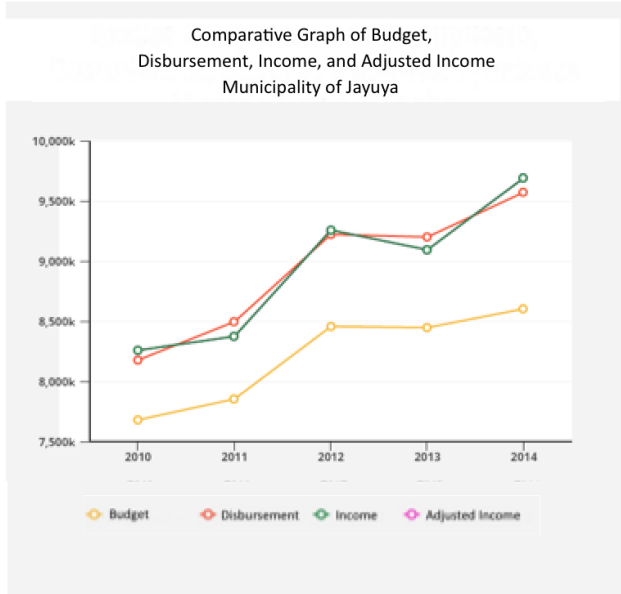
The municipal budget increased from \$10.6 million in 2010 to \$12.2 in 2013, and later decreased to \$10.5 in 2014. The actual disbursement was less than budgeted in each of the years analyzed. The adjusted income was less than what was disbursed in 2010, 2012, 2013 and 2014. Adjusted income and actual disbursements exceeded the 5% budget variance in each of the years analyzed. The municipality incurred in debt to cover operational expenses in 2010, 2011 and 2012, for a total amount of \$6 million. Long-term Bonds and Notes debt increased from \$6.2 million in 2010 to \$10.3 million in 2012, and later decreased to \$8.7 million in 2014, a 40.3% increase for the period. Adjusted income increased from \$6.4 million to \$8.2 million in 2014, a 28.1% increase.

21. Dashboard Municipality of Hormigueros



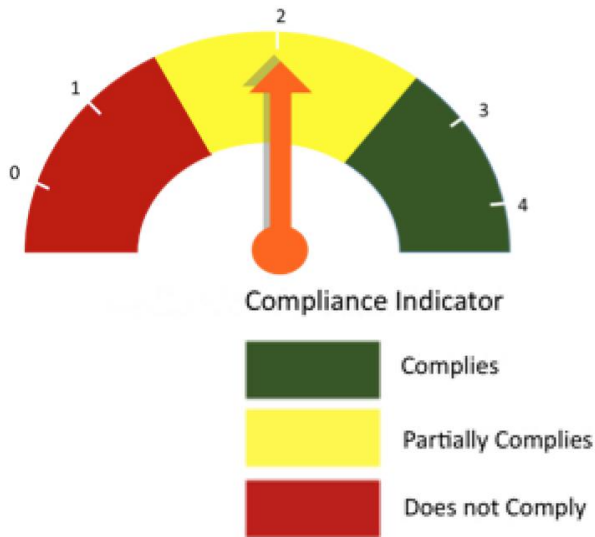
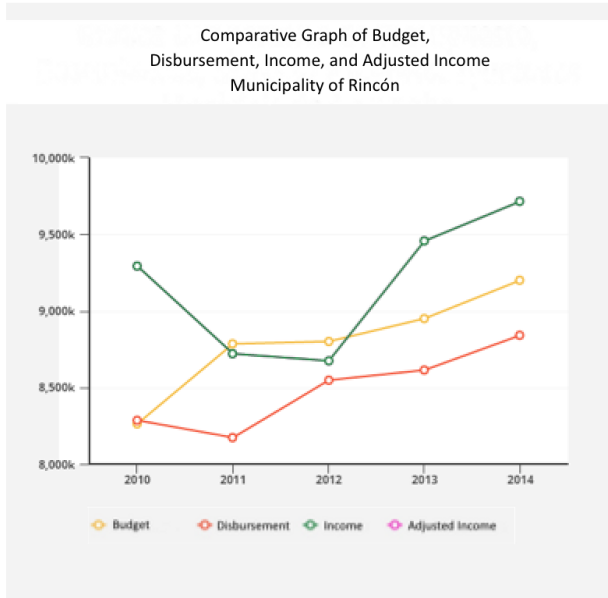
The municipal budget increased from \$9.5 million in 2010 to \$10.7 million in 2014. We do not have financial information for 2012. The actual disbursement was greater than budgeted in 2010 and 2011. The adjusted income was greater than what was disbursed in each of the years we analyzed. The adjusted income and actual disbursements exceeded the 5% budget variance. The municipality did not incur in debt to cover operational expenses. Long-term debt in Bonds and Notes decreased from \$16.2 million in 2010 to \$14.3 million in 2014, an 11.7% reduction. Adjusted income increased from \$10.3 million in 2010 to \$10.8 million in 2014, a 4.9% increase.

22. Dashboard Municipality of Jayuya



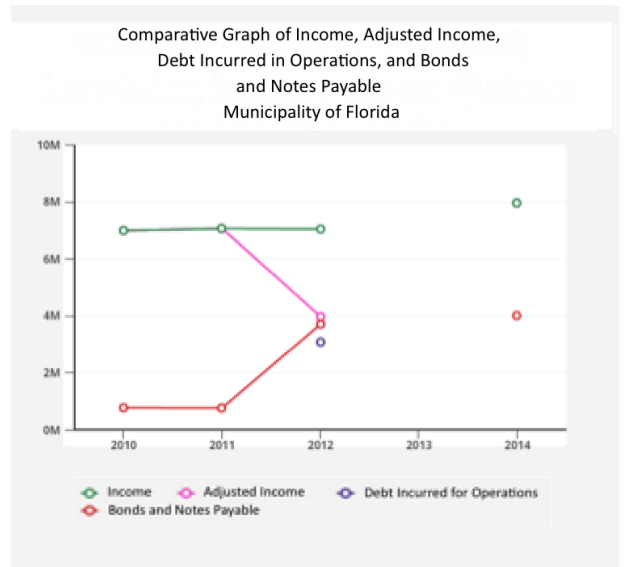
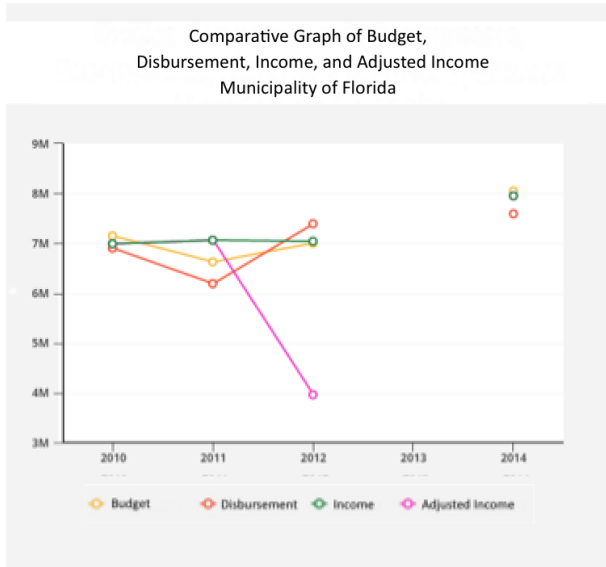
The municipal budget increased from \$7.7 million in 2010 to \$8.6 million in 2014. The actual disbursement was greater than budgeted in each of the years analyzed. The adjusted income was greater than what was disbursed in 2010, 2012 and 2014. The adjusted income and actual disbursements exceeded the 5% budget variance in each of the years analyzed. The municipality did not incur in debt to cover operational expenses. Long-term debt in Bonds and Notes increased from \$6.7 million in 2010 to \$11.2 million in 2014, a 67.2% increase. Adjusted income increased from \$8.3 million in 2010 to \$9.7 million in 2014, a 16.9% increase.

23. Dashboard Municipality of Rincón



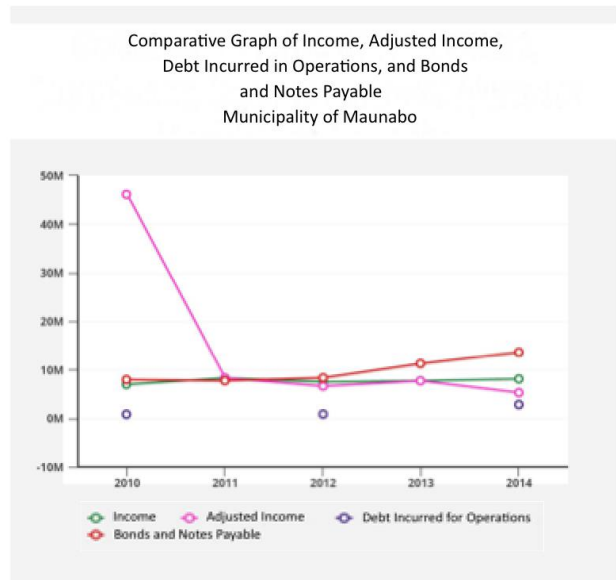
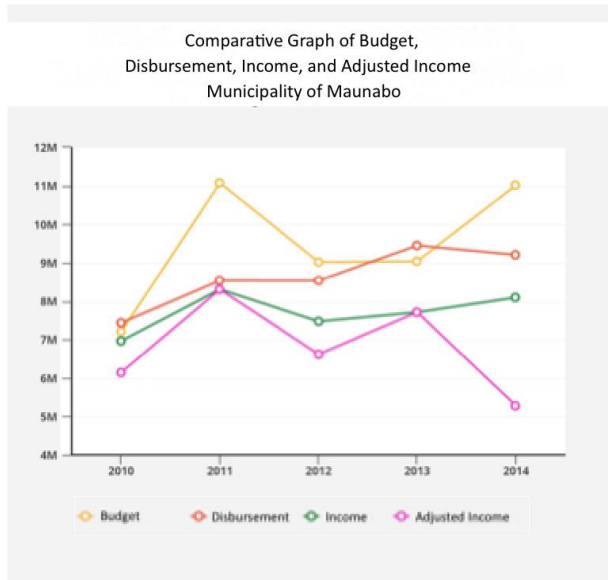
The municipal budget increased from \$8.3 million in 2010 to \$9.2 million in 2014. The actual disbursement was less than budgeted in 2011, 2012, 2013 and 2014. The adjusted income was greater than what was disbursed in each of the years analyzed. The adjusted income and actual disbursements exceeded the 5% budget variance in 2010, 2013 and 2014. The municipality did not incur in debt to cover operational expenses. Long-term debt in Bonds and Notes increased from \$7.3 million in 2010 to \$ 9.4 million in 2014, a 28.8% increase. Adjusted income increased from \$9.3 million in 2010 to \$9.7 million in 2014, a 4.3% increase.

24. Dashboard Municipality of Florida



The municipal budget increased from \$7.1 million in 2010 to \$8.0 million in 2014. We do not have financial information for 2013. The actual disbursement was less than budgeted in 2010, 2011 and 2014. The adjusted income was greater than what was disbursed in 2010, 2011 y 2014. The adjusted income and actual disbursements exceeded the 5% budget variance in each of the years analyzed. The municipality incurred in debt to cover operational expenses in 2012, for a total amount of \$3.1 million. Long-term debt in Bonds and Notes increased from \$770 thousand in 2010 to \$4 million in 2014, a 419.5% increase. Adjusted income decreased from \$7 million in 2010 to \$4 million in 2012, and later increased to \$8 million in 2014, a 14.3% increase.

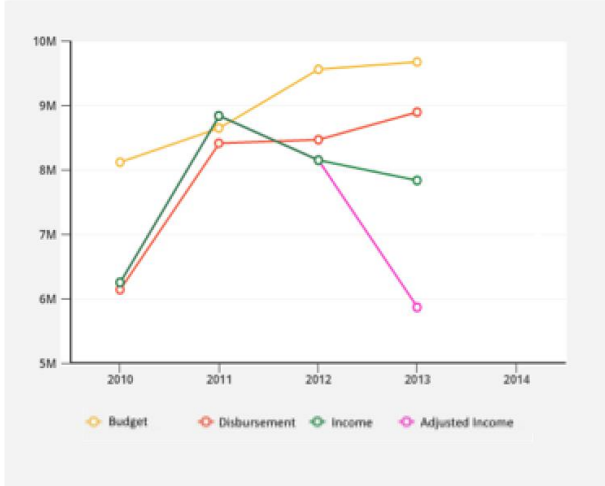
25. Dashboard Municipality of Maunabo



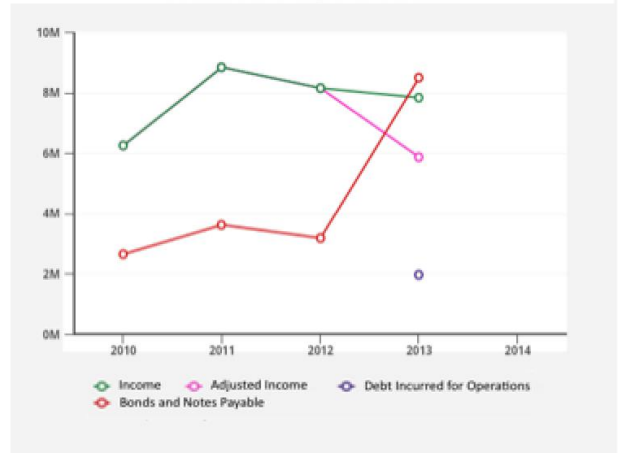
The municipal budget increased from \$7.2 million in 2010 to \$11 million in 2014. The actual disbursement was less than budgeted in 2011, 2012 and 2014. The adjusted income was less than what was disbursed in each of the years analyzed. The adjusted income and actual disbursements exceeded the 5% budget variance in each of the years analyzed. The municipality incurred in debt to cover operational expenses in 2010, 2012 and 2014, for a total amount of \$4.5 million. Long-term debt in Bonds and Notes increased from \$8 million in 2010 to \$13.6 million in 2014, a 70% increase. Adjusted income decreased from \$6.1 million in 2010 to \$5.3 million in 2014, a 13.1% reduction.

26. Dashboard Municipality of Ceiba

Comparative Graph of Budget, Disbursement, Income, and Adjusted Income Municipality of Ceiba

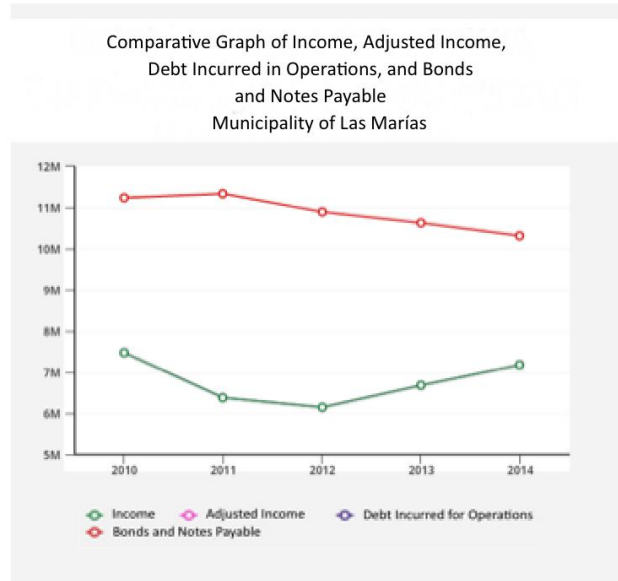
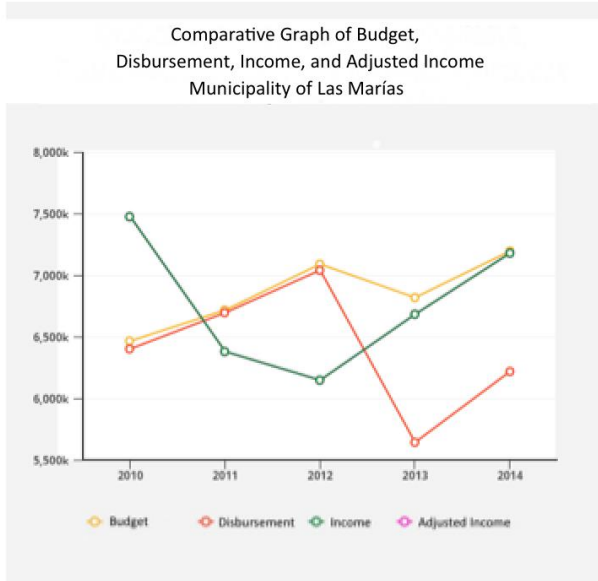


Comparative Graph of Income, Adjusted Income, Debt Incurred in Operations, and Bonds and Notes Payable Municipality of Ceiba



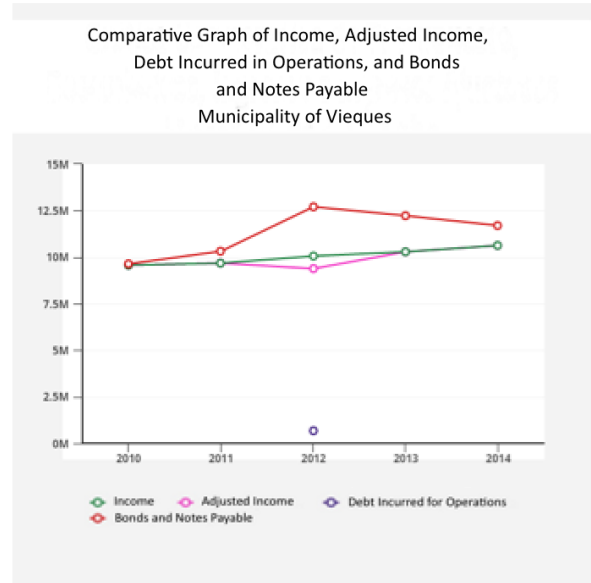
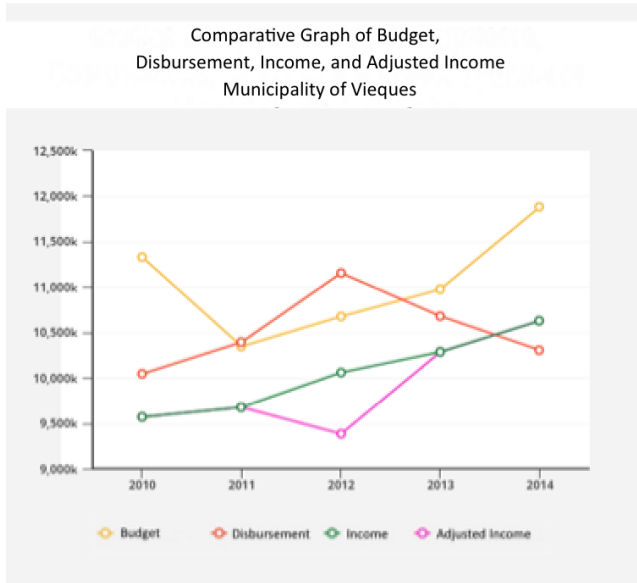
Municipal budget increased from \$8.1 million in 2010 to \$9.7 million in 2013. We do not have financial information for 2014. The actual disbursement was less than budgeted in each of the four (4) years analyzed. The adjusted income was greater than what was disbursed in 2012 y 2013. The adjusted income and actual disbursements exceeded the 5% budget variance in 2010, 2012 and 2013. The municipality incurred in debt to cover operational expenses in 2013, for a total amount of \$2 million. Long-term debt in Bonds and Notes increased from \$2.6 million in 2010 to \$8.5 million in 2013, a 226.9% increase. Adjusted income decreased from \$6.2 million in 2010 to \$5.9 million in 2013, a 4.8% reduction.

27. Dashboard Municipality of Las Marías



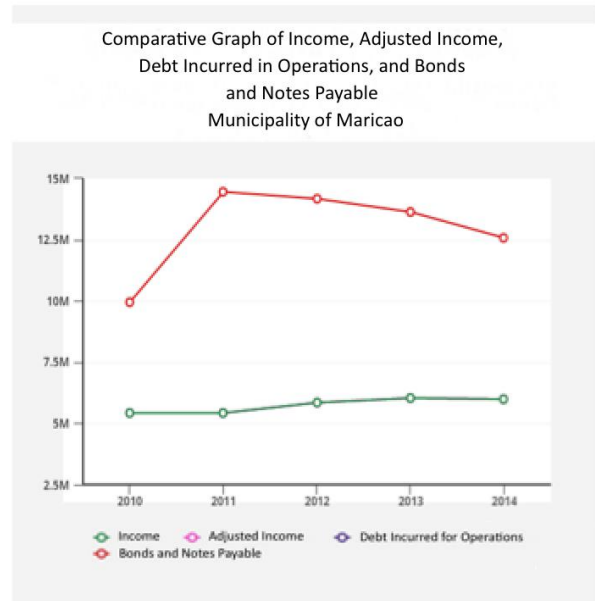
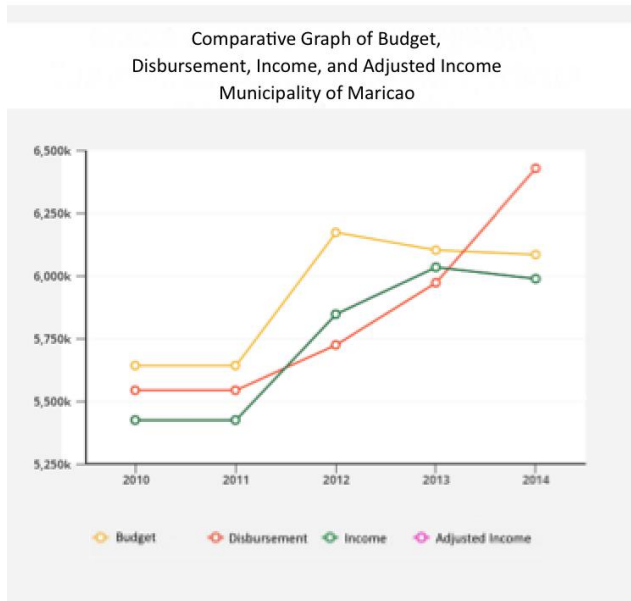
The municipal budget increased from \$6.5 million in 2010 to \$7.2 million in 2014. The actual disbursement was less than budgeted each of the years analyzed. The adjusted income was greater than what was disbursed in 2010, 2013 and 2014. The adjusted income and actual disbursements exceeded the 5% budget variance in 2010, 2012, 2013 and 2014. The municipality did not incur in debt to cover operational expenses during any of the years analyzed. Long-term debt in Bonds and Notes decreased from \$11.2 million to \$10.3 million, an 8% reduction. Adjusted income decreased from \$7.5 million in 2010 to \$7.2 million, a 4% reduction.

28. Dashboard Municipality of Vieques



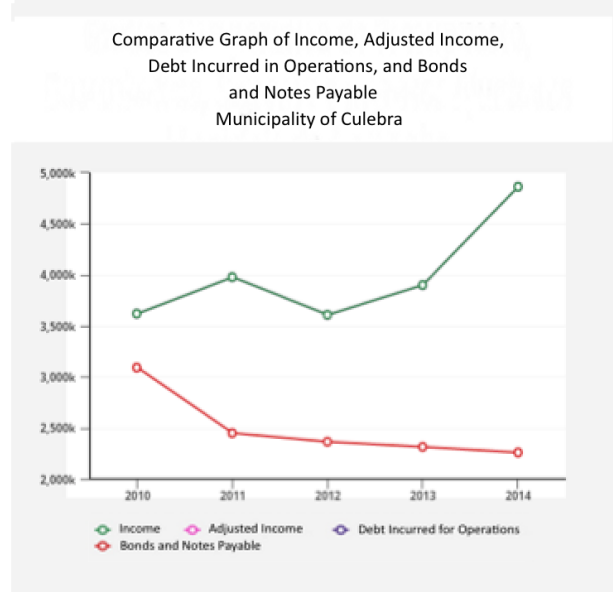
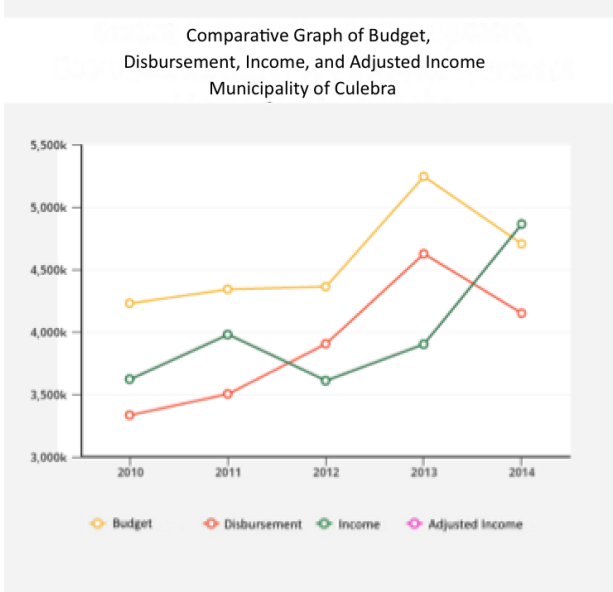
The municipal budget increased from \$11.3 million in 2010 to \$11.9 million in 2014. The actual disbursement was greater than budgeted in 2011, 2012 and 2013. The adjusted income was less than what was disbursed in 2010, 2011, 2012 and 2013. The adjusted income and actual disbursements exceeded the 5% budget variance in each of the years analyzed. The municipality incurred in debt to cover operational expenses in 2012, for a total amount of \$676 thousand. Long-term debt in Bonds and Notes increased from \$9.6 million in 2010 to \$11.7 million in 2014, a 21.9% increase. Adjusted income increased from \$9.6 million in 2010 to \$10.6 million in 2014, a 10.4% increase.

29. Dashboard Municipality of Maricao



The municipal budget increased from \$5.6 million in 2010 to \$6.1 million in 2014. The actual disbursement was less than budgeted in 2010, 2011, 2012 and 2013. The adjusted income was less than what was disbursed in 2010, 2011 and 2014. The adjusted income and actual disbursements exceeded the 5% budget variance in 2012 and 2014. The municipality did not incur in debt to cover operational expenses during the years analyzed. Long-term debt in Bonds and Notes increased from \$9.9 million in 2010 to \$14.4. This represents a 27.3% increase for the analyzed period. Adjusted income increased from \$5.4 million in 2010 to \$6 million in 2014, an 11.1% increase.

30. Dashboard Municipality of Culebra



The municipal budget increased from \$4.2 million in 2010 to \$4.7 million in 2014. The actual disbursement was less than budgeted every year analyzed. The adjusted income was greater than what was disbursed in 2010, 2011 and 2014. The adjusted income and actual disbursements exceeded the 5% budget variance in each of the years analyzed. The municipality did not incur in debt to cover operational expenses during the years analyzed. Long-term debt in Bonds and Notes decreased from \$3.1 million in 2010 to \$2.3 million in 2014, a 25.8% reduction. Adjusted income increased from \$3.6 million in 2010 to \$4.9 million in 2014, a 36.1% increase.

B. Concluding Remarks

Building upon the main findings of the study the research team emphasizes the role of transparency as a bedrock principle for accountability and fiscal responsibility in local government and a more trustworthy municipal government. A key implication for practices to foster is that a culture of good governance in local government should be anchored to a common and coherent legal framework on transparency, accountability and fiscal responsibility.

The research team proposes that diverse pressures toward greater transparency from all sectors is likely to drive the adoption of a comprehensive legal framework and the use of a new generation of performance information by different local actors. The financial crisis, the deteriorated economic environment and the weak administrative governance of local authorities' imposes upon municipalities new pressures to demonstrate their contribution to citizens wellbeing and prosperity.

Taken together, a key implication for these practices to foster is that effective, efficient, and equitable delivery of public information necessitates the careful cultivation of a network of third party actors (e.g., universities or nonprofits), who are perceived as credible by both citizens and local government. By establishing such a network of credible institutions to disseminate government information, it is possible for local governments to capitalize upon the ability of these organizations to effect-

tively communicate the relevance of information pertaining to their local government to different segments of the community, while at the same time creating the potential for citizens to evaluate information more objectively.

When applying the transparency, accountability and fiscal responsibility indicators to the municipalities of Puerto Rico, we observe that there is great dispersion in the total score on the levels of readiness to implement good governance practices. This highlights the municipalities' levels of openness and readiness in carrying out their functions. Likewise, the contrast between two points of views stands out: on the one hand, the view of the municipality as the government closest to the people, and on the other hand, the reality of a government absorbed by the vagueness of norms and procedures, and insufficient resources that ensure that municipal governments and its officials inform, explain and justify their actions to the citizens.

From the previously identified key findings, we can draw the following conclusions:

Legal Framework

1. The Autonomous Municipalities Act of 1991 does not establish clear and compelling parameters related to the principles of municipal fiscal responsibility, transparency and accountability.

2. There are no specific, coherent and consistent criteria that define the content and information that should be disclosed on the municipalities' web sites.

Municipal Transparency

3. There are no municipal ordinances that regulate the obligation to disclose public information especially regarding budgets, budget amendments, income and expense reports, transfer of funds, purchases, contracts, and other documents essential to good municipal governance.
4. The poor results obtained by municipalities in the evaluations measuring transparency, accountability and fiscal responsibility practices are mainly due to the absence of a legal framework that obligates municipalities to disclose all public information to citizens, entrepreneurs and investors.

The limited disclosure that does exist is due to audit processes and the evaluation of the municipality's compliance with laws and regulations focused on elements of accountability.

These efforts take place after municipal actions have happened; actions, decisions, intentions and expected results that were not properly disclosed to citizens prior to their occurrence.

The lack of transparency in municipal affairs hinders the accountability processes, pointing out too late the officials responsible for those actions or omissions that affected public funds.

5. The majority of the municipalities (50% did not accept to be interviewed, and 93.3% did not provide the information, documents and data requested) showed little willingness to change their relationship with citizens by making information and relevant documents transparent and creating opportunities for citizen participation in the decision-making process.
6. The results of the study show that the majority of the municipalities with lower population and resources tend to be less prepared to adopt transparency practices, whereas municipalities with higher populations and resources display more readiness to adopt transparency practices. There were minor exceptions in both groups.

Accountability in Municipal Government

7. Not all forms of accountability are contained in the Autonomous Municipalities Act. When analyzing the current legislation, we find that only the presentation of the approved budget and activities report is regulated by the Act.

8. The second instance of accountability found in the Autonomous Municipalities Act is the internal audits, external audits and the audit performed by the Office of the Comptroller of Puerto Rico (OCPR). Only the audits performed by the OCPR are published.

Fiscal Responsibility

9. The municipalities in Puerto Rico do not practice the internationally established principles for the transparency of budgets, that is, the management of budgets is not exercised in accordance with open budget standards. This does not allow the involvement of citizens and all social actors in the formulation of the municipal budget and its control.
10. When analyzing the income generated by licenses and other municipal taxes resulting from the audited financial statements review process, we can conclude that in the present resource constraints scenario at the state level, it is unlikely that some municipalities with lower populations and resources will be able to cover their operational expenses and, consequently, continue to provide services to its citizens.

Moreover, the capability of some municipalities with lower population and resources to continue their operations without receiving special legislative or central

government funds is questionable.

The public discussion on reducing the number of municipalities in Puerto Rico will increase with the inability of some municipalities to continue their operations without state financial assistance.

C. Recommendations

Specific

1. It is necessary to formulate and adopt an integrated and coherent legal framework, and the public policies needed to successfully implement transparency, accountability and fiscal responsibility strategies at the municipal level as a tool to generate better results (that meet the needs of the citizens) and procure the prudent use of public resources.

This will also require the development of processes and procedures and that preserve and improve them over time. These will need to be supervised by the Office of the Comptroller of Puerto Rico and the Office of Government Ethics so that they may be successfully implemented as soon as possible.

2. It is essential to articulate and implement a system of transparency and accountability, and fiscal responsibility in municipal affairs anchored in international principles.

3. It is fundamental to develop strategies to strengthen transparency and accountability in the fiscal area as a means to improve the prudent use of public resources.
4. It is necessary to strengthen technological systems and websites as tools for the transparency of all public information related to the results of municipal affairs and the use of public resources.
5. It is necessary to make the budget process transparent and involve citizens in the development of open budgets as a means to improve the fiscal health of the municipalities.
6. Information infrastructure must be strengthened and data quality improved as a basis for generating relevant and substantive information to support decision-making and improve the response to citizens' needs.
7. It is necessary to create new legislation to improve accountability and the active involvement of citizens. Although mechanisms for accountability and citizen participation have been created in Puerto Rico, these have not been entirely effective. What is established in the Autonomous Municipalities Act lacks justification, is obsolete and has not yielded the expected results.
8. In the area of financial reporting, it is necessary that all elected officials openly disclose their

personal financial reports. To this end, the Office of Government Ethics must adopt regulations in order to provide citizens with an opportunity to inspect the financial reports of mayors and other elected officials so that any irregularities can be detected.

9. Regarding internal and external audits, it is necessary to amend the Autonomous Municipalities Act to compel their disclosure through the Internet so that citizens have access to them without the need to request authorization or justify their interest.
10. Carry out future studies using the methodology on this study, applied to all 78 municipalities. In addition, the municipal reform initiatives in all their modalities that are currently discussed in the legislature should consider the results of this study.

General

1. It is urgent that the municipal governments commit themselves to the principles of transparent and open governance. Even though fiscal autonomy greatly defines the administrative competencies of the municipalities, coordination with the central government is essential in finding the right solutions to the problem of corruption.

Isolated and fragmented legislations directed only at central government agencies are not

sufficient if we want transparency and accountability practices to become the guiding forces of any government endeavor.

2. The serious financial constraints currently faced by the central government and the Government Development Bank prevent the continuation of fiscal assistance to municipalities with limited resources.

This will expand the discussion to generate alternatives (consolidation, grouping or elimination of municipalities, among other modalities) to address the financing of the services that these municipalities provide to citizens.

Whichever may be the solution to this situation, it is crucial to enact legislation on transparency, accountability and fiscal responsibility that guarantees citizens that the solution adopted will achieve the expected results and will be sustainable in the short and long term.

3. There is a significant need to foster educational programs to develop technical and behavioral skills regarding transparency, openness, good governance and the transparent management of citizens' public information requests.

It is necessary to change the organizational values in which secrecy and absolute claims of confidentiality prevail, and give

way to transparency and municipal accountability.

The analysis and disclosure of public information contributes to greater transparency and accountability in the municipal sector, allows evaluating the effective use of fiscal resources, and encourages the leadership to be more effective and act efficiently in the use of resources. It also permits the identification of areas more susceptible to errors and mistakes.

4. Puerto Rico must urgently transform its administrative culture and public affairs management, both at the state and municipal levels.

In sum, the fiscal crisis in Puerto Rico which started in 2006 has had significant implications for the economy, the capacity to access financing and placing public finances on severe constrain the crisis has also impacted local governments forcing them to be more transparent in the management of public resources. In recent times, there is an ongoing pressure to adopt transparency as a good governance strategy for improving good governance in public administration. Transparency has become an important source for citizens to better understand public policies, increase public trust, reduce corruption and hold officials accountable for their actions and the resulting outcomes.

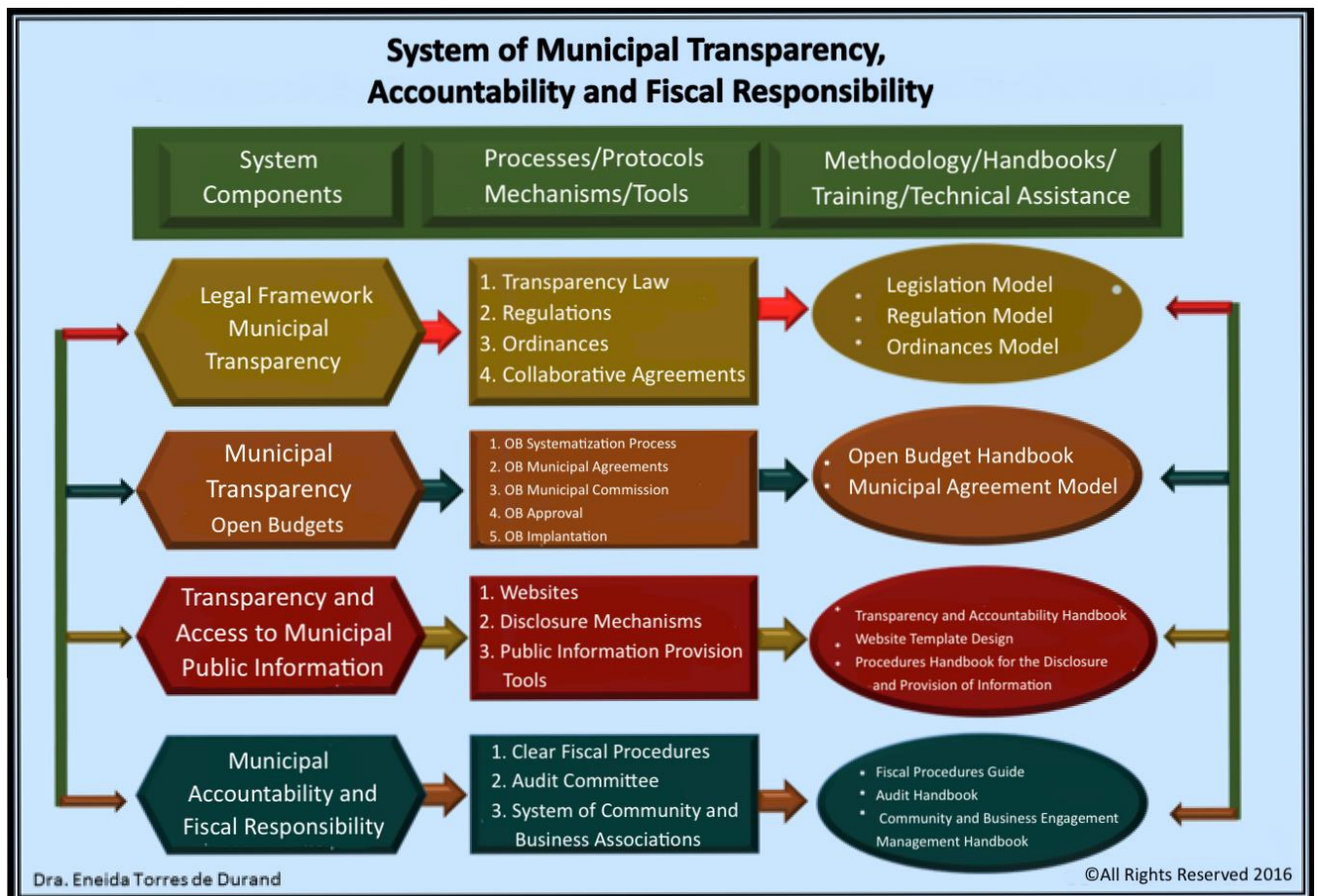
This research has pointed to further possibilities for the analysis of

transparency, accountability and fiscal responsibility in local government in the future. The set of monitored indicators applied by the CGPC research team can be extended to the 78 municipalities in Puerto Rico. The same analytical framework can also be applied not only to municipalities but also to other levels of government. Further research is needed to assess the extended set of parameters applied in other municipal

transparency indexes, such as Transparency Spain.

Building upon the research findings, the research team has articulated a Conceptual Framework of the Transparency, Accountability, and Fiscal Responsibility Management System in Municipal Government

Figure No. 2 Conceptual Framework



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