

**PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE
COMMONWEALTH OF PUERTO RICO)**

**BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED BY THE
SINGLE AUDIT ACT OF 1984, AS AMMENDED)**

YEAR ENDED JUNE 30, 2014



PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report on Financial Statements	1-3
Management's Discussion and Analysis	4-12
Basic Financial Statements:	
Statement of Net Position (Deficit)	13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position (Deficit)	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Notes to Basic Financial Statements	19-34
Schedule of Expenditures of Federal Awards	35
Notes to Schedule of Expenditures of Federal Awards	36
Independent Auditors' Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards	37-38

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS (CONTINUED)

	PAGE
Independent Auditor's Report on compliance for each major program and on internal control over compliance required by OMB Circular A-133	39-41
Schedule of Findings and Questioned Costs	42-49
Summary Schedule of Prior Years Audit Findings	50-52



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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Puerto Rico Traffic Safety Commission
(An Executive Agency of the Commonwealth
of Puerto Rico)

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico) ("the Commission")** as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion

As of June 30, 2014, the Commission has certain accounts receivable balances from prior years recorded on books amounting to \$1,014,110. The Commission was not able to provide us with sufficient evidential matter to support those balances. Because of the inadequacy of accounting records, we were unable to obtain appropriate audit evidence regarding the amounts related to these accounts receivable balances.

Qualified Opinion

In our opinion, except for the effect of the matter discussed in the Basis for Qualified Opinion paragraph, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico) ('the Commission')**, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in **Note 9**, the National Traffic Safety Administration (NHTSA) made a claim to the Commonwealth of Puerto Rico (CPR) and the Commission for the reimbursement of funds. No final determination has been issued by NHTSA in regard to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



López-Vega, CPA, PSC

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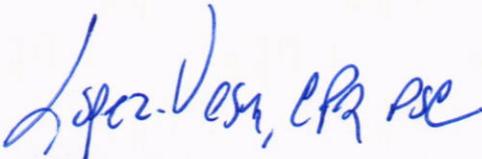
INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2015, on our consideration of the Commission's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
March 11, 2015

Stamp No. 2675896 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

4

The following discussion and analysis of the financial performance and activity of the **Puerto Rico Traffic Safety Commission, An Executive Agency of the Commonwealth of Puerto Rico, ("the Commission")** provides an introduction and understanding of the basic financial statements of the Commission for the fiscal year ended June 30, 2014. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights

- Total assets as of June 30, 2014, amounted to \$5,288,048 and total liabilities amounted to \$5,297,886, at that date.
- Net position (deficit) at June 30, 2014 amounted to \$(9,838).
- Net position (deficit) decreased by \$163,298, as a result of the current year's operations.

The Commission's basic financial statements consist of two kinds of statements, each with a different view of the Commission's finances. The government-wide financial statements provide both long-term and short-term information about the Commission's overall financial position. The fund financial statements focus on major aspects of the Commission's operations, reporting those operations in more detail than the government-wide statements.

Overview of the Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

5

Government-wide financial statements (Continued)

The statement of activities presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Government-Wide Financial Statements of the Commission can be found on pages **13** to **14** of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are included in the governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Commission's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit) for the General Fund and Special Revenue Fund.

The Commission received annual appropriated funds from the Commonwealth of Puerto Rico Automobile Accidents Compensations Administration (AACA) for its planning and administration expenditures in the general fund.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

6

Fund financial statements (Continued)

The special revenue fund accounts for all funds received under federal grants from the U.S. Department of Transportation and restricted to specific programs.

The Commission's basic governmental fund financial statements can be found on pages **15** to **18** of this report.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages **19** through **34** of this report.

Government-wide Overall Financial Analysis

Net Assets

As described before, net position (deficit) over time, may serve as a useful indicator of a government's financial position at the end of the fiscal year. In the case of the Commission, liabilities of the Commission's governmental activities exceeded assets by \$(9,838) at June 30, 2014, resulting in a decrease of \$163,298 as compared to the net position (deficit) of \$(173,136) as of June 30, 2013. The Commission's net assets include investment in capital assets amounting to \$45,205 and deficiency in unrestricted net position of \$(55,043).

The largest portion of the Commission's assets is the accounts receivable from federal grants. The Commission is the administrator of the National Highway Traffic Safety Administration (NHTSA) grants received from the US Department of Transportation as a pass-through agency. The Commission delegates funds to many agencies and municipalities of the Commonwealth of Puerto Rico and has the obligation of monitoring the proper use of those funds by sub-recipients.

PUERTO RICO TRAFFIC SAFETY COMMISSION
 (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A condensed summary of the statement of net position of the governmental activities of the Commission as of June 30, 2014 and 2013 is as follows:

**CONDENSED STATEMENTS OF NET POSITION - GOVERNMENTAL ACTIVITIES
 AS OF JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets	\$ 5,242,843	\$ 7,601,982
Capital assets, net	45,205	46,488
Total assets	<u>5,288,048</u>	<u>7,648,470</u>
Liabilities:		
Accounts payable and accrued liabilities	4,737,021	7,306,303
Accrued compensated absences and bonus	560,865	515,303
Total liabilities	<u>5,297,886</u>	<u>7,821,606</u>
Net position (deficit)		
Net invested in capital assets	45,205	46,488
Unrestricted (deficit)	<u>(55,043)</u>	<u>(219,624)</u>
Total net position (deficit)	<u>(9,838)</u>	<u>(173,136)</u>

Total assets decreased by \$2,360,422 or 30.86%. This result was mainly due to a decrease on accounts receivable amounting to \$2,229,757; which in turn is related to the decrease in the Federal funds assigned from the US NHTSA (\$1,863,297), during the fiscal year ended on June 30, 2014. The largest portion of the Commission's assets are the accounts receivable from federal grants and cash and cash equivalents, which represents 63.34% and 35.50%, respectively, of total assets as of June 30, 2014.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

8

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Position (Deficit)

The change in net position of the Commission's governmental activities amounted to \$163,298 during the year ended June 30 2014. Program revenues decreased by \$1,759,373 (18.85%), and expenses decreased by \$1,698,780 (18.64%) in comparison with fiscal year 2013. Both decreases are related with the reduction of federal assistance to finance the operations of certain Commission's programs. A summary of the governmental activities during the year ended June 30, 2014, follows:

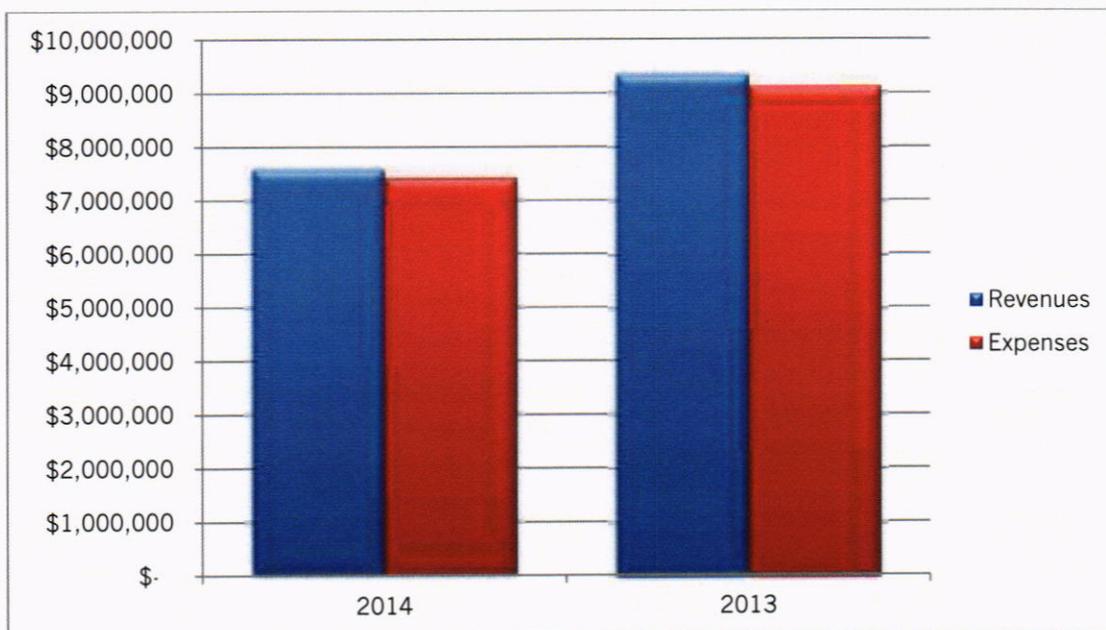
**CONDENSED STATEMENTS OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2012**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Program Revenues:			
Operating grants and contributions	\$ 7,578,896	\$ 9,334,455	\$ (1,755,559)
Expenses:			
Planning and administration	1,913,923	1,715,995	197,928
Impaired driver	736,874	263,586	473,288
Youth impaired driver	389,098	617,934	(228,836)
Police traffic safety	395,397	314,313	81,084
Occupant protection	288,169	177,730	110,439
Community programs	175,319	334,237	(158,918)
Non-occupant safety	309,555	302,156	7,399
Traffic engineering	147,912	3,285,638	(3,137,726)
Paid media	2,546,595	1,913,656	632,939
Motorcycle safety	80,670	69,083	11,587
Fatality analysis reporting system	53,816	57,669	(3,853)
Traffic records	272,149	56,581	(215,568)
Distracting driving	106,121	5,800	100,321
Total expenses	<u>7,415,598</u>	<u>9,114,378</u>	<u>(1,698,780)</u>
Change in net position	163,298	220,077	(56,779)
Net position (deficit) at beginning of year, as restated	<u>(173,136)</u>	<u>(393,213)</u>	<u>220,077</u>
Net position (deficit) at end of year	<u>\$ (9,838)</u>	<u>\$ (173,136)</u>	<u>\$ 163,298</u>

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)



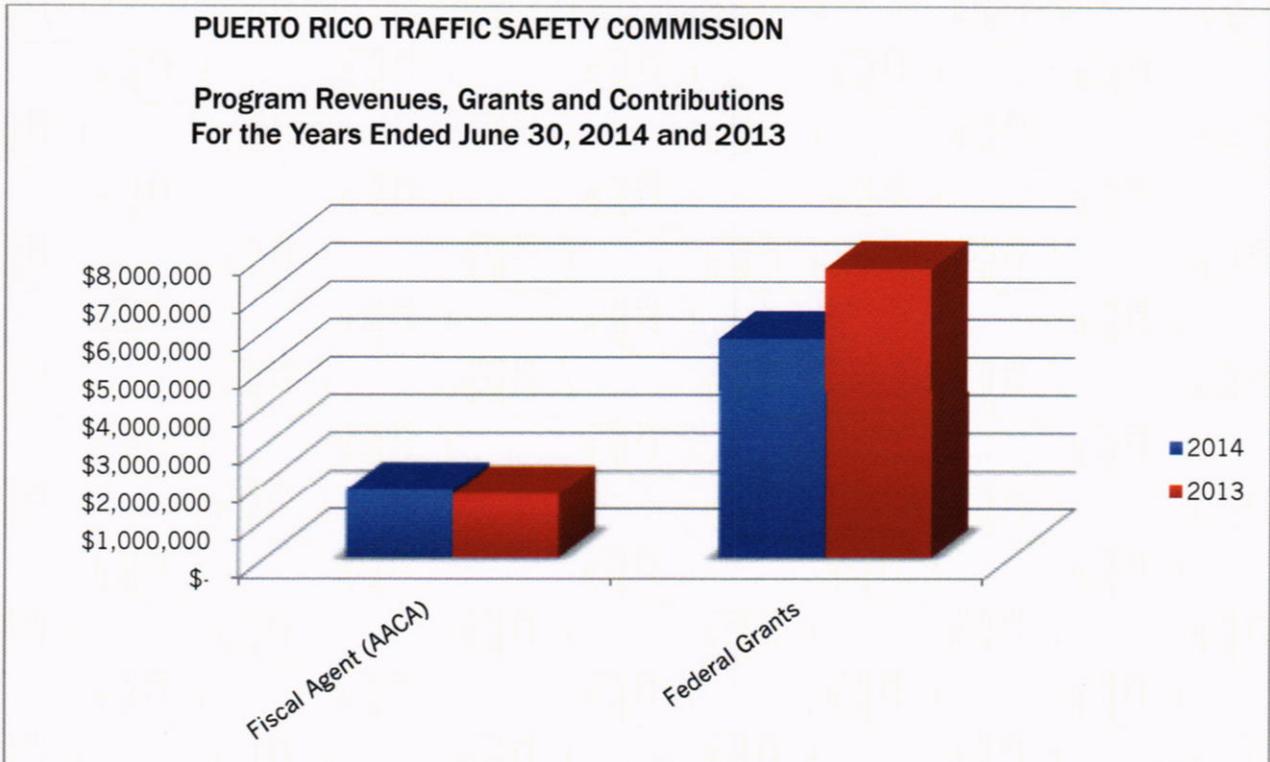
Program revenues and operating grants consist of state funds in the amount of \$1,794,678 and federal awards received from the NHTSA in the amount of \$5,780,404 and other income amounting to \$3,814. All of the Commission's programs are financed with federal awards received from NHTSA.

The following chart presents revenues comparison by program of the Commission activities for the years ended June 30, 2014 and 2013:

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)



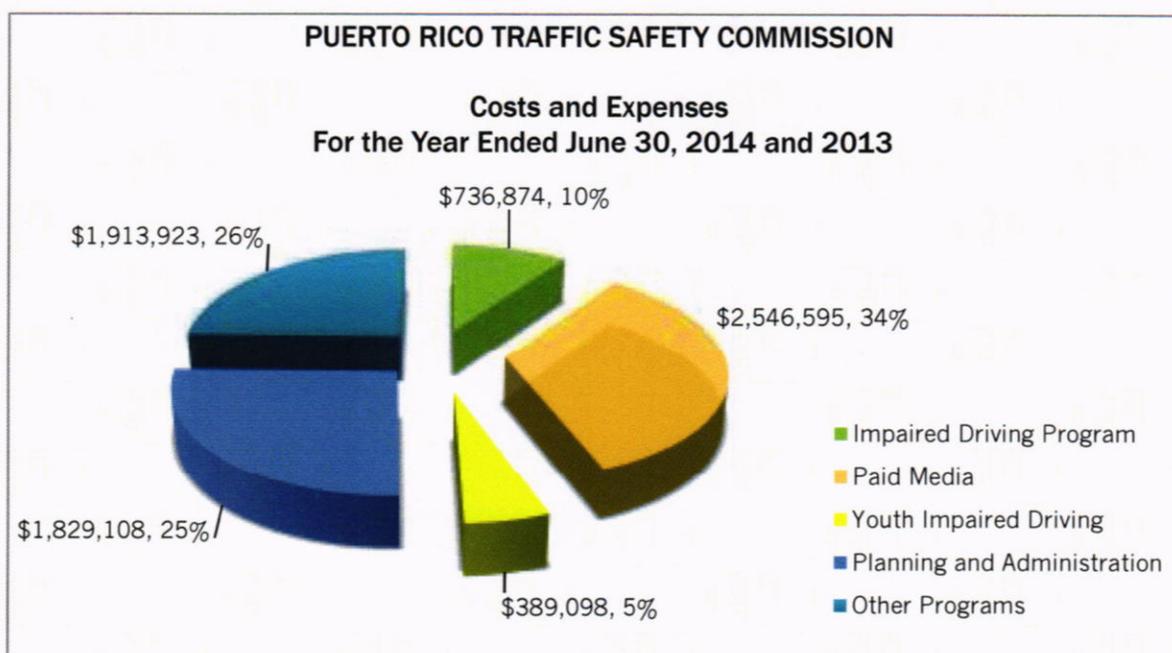
Planning and administration expenses consist principally of personnel compensation and related benefits and are financed principally with the state funds received from AACA and, with certain limitation, with federal awards received from NHTSA. All other programs are financed with funds received from NHTSA. The amount expended during the year depends on the amounts assigned or approved by NHTSA. These funds are restricted to specific activities pursuant to federal awards acts and regulations.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following chart presents expenses by program of the Commission for the year ended June 30, 2014:



Financial Analysis of the Commission's Funds

The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year. As of the end of the fiscal year 2014, the Commission's governmental funds reported combined ending fund balance amounting to \$505,822 at the close of current year, which represents an increase of \$210,143 compared with prior fiscal year 2013.

The general fund is the primary operating fund of the Commission. At the end of the current fiscal year, assigned fund balance of the general fund amounted to \$869,296.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

12

Financial Analysis of the Commission's Funds (Continued)

The fund balance of the Commission's general fund increased by \$213,244. Total general fund revenues for the fiscal year 2014 amounted to \$1,798,678, while total expenditures for the fiscal year 2014 amounted to \$1,585,248.

General

Operating Budget

Under Act No. 14 of August 21, 1990, the Automobile Accidents Compensation Administration (AACA) shall appropriate and provide the commission with funds needed for its operations. The Commission is required to prepare a budget each year to be presented to the AACA for approval. For the year ended June 30, 2014, the AACA approved a budget amounting to \$1,798,678, to provide funds for the Commission's operations.

Capital Assets and Debt Administration

Capital Asset

The capital assets of the Commission are those assets that are used in the performance of its functions. The investments in capital assets (net of accumulate depreciation) as of June 30, 2014 amounted to a net \$45,205. Additional information on the commission's capital assets can be found in the Note 5 of the basic financial statements on page 27 of this report.

Long-Term Debt

Total accrued compensated absence and Christmas bonus owed by Commission's amounted to \$560,865 as of June 30, 2014. Additional information on the Commission's long-term liabilities can be found in the Note 8 of the basic financial statements on page 28 of this report.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information, contact the Commonwealth of Puerto Rico Traffic Safety Commission, Finance Area; P. O. Box 41289 Minillas Station 00940.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2014

13

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,877,748
Accounts Receivable:	
Federal Grants	3,349,434
Other	15,661
Capital assets net of accumulated depreciation	<u>45,205</u>
Total assets	<u>\$ 5,288,048</u>
Liabilities and net position (deficit)	
Liabilities	
Funds in transit to cover reported expenses	1,362,810
Accounts payable and accrued liabilities	2,793,240
Due to AACA	580,971
Long-term liabilities:	
Due within one year	68,687
Due in more than one year	<u>492,178</u>
Total liabilities	<u>5,297,886</u>
Net position (deficit)	
Net Investment in capital assets	45,205
Unrestricted (deficit)	<u>(55,043)</u>
Total net position (deficit)	<u>\$ (9,838)</u>

See accompanying notes to basic financial statements.

PUERTO RICO TRAFFIC SAFETY COMMISSION
 (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2014

14

<u>Functions / Programs</u>	<u>Costs and expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Position Governmental Activities</u>
Programs direct Costs and expenses:			
Planning and administration	\$ 1,913,923	\$ 2,080,317	\$ 166,394
Impaired driver program	736,874	736,623	(251)
Youth impaired driver	389,098	389,098	-
Police traffic safety	395,397	395,397	-
Occupant protection	288,169	288,005	(164)
Community programs	175,319	175,319	-
Non-occupant safety	309,555	307,727	(1,828)
Traffic engineering	147,912	147,714	(198)
Paid media	2,546,595	2,546,595	-
Motorcycle safety	80,670	80,440	(230)
Fatality analysis reporting system	53,816	53,588	(228)
Traffic record	272,149	271,981	(168)
Distracting driving	<u>106,121</u>	<u>106,092</u>	<u>(29)</u>
Total governmental activities	<u>\$ 7,415,598</u>	<u>\$ 7,578,896</u>	
Change in net position			163,298
Net position (deficit) at beginning of year			<u>(173,136)</u>
Net position (deficit) at end of year			<u>\$ (9,838)</u>

See accompanying notes to basic financial statements.

PUERTO RICO TRAFFIC SAFETY COMMISSION
 (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

BALANCE SHEET – GOVERNMENTAL FUNDS
 JUNE 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,877,748	\$ -	\$ 1,877,748
Accounts Receivable:			
Federal Grants	-	3,349,434	3,349,434
Other	<u>1,433</u>	<u>14,228</u>	<u>15,661</u>
Total assets	<u>1,879,181</u>	<u>3,363,662</u>	<u>5,242,843</u>
Liabilities and fund balance			
Liabilities			
Funds in-transit to cover reported expenditures	-	1,362,810	1,362,810
Accounts payable and accrued liabilities	431,945	2,361,295	2,793,240
Due to AACA	<u>577,940</u>	<u>3,031</u>	<u>580,971</u>
Total liabilities	<u>1,009,885</u>	<u>3,727,136</u>	<u>4,737,021</u>
Fund Balances			
Assigned	<u>869,296</u>	<u>(363,474)</u>	<u>505,822</u>
Total liabilities and fund balances	<u>\$ 1,879,181</u>	<u>\$ 3,363,662</u>	<u>\$ 5,242,843</u>

See accompanying notes to basic financial statements.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2014

Total fund balances of governmental funds	\$ 505,822
Amounts reported to governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements	45,205
Liability of accrued compensated absences are not to be paid with current financial resources and therefore not reported in the fund financial statements	(546,865)
Liability of Christmas bonus are not to be paid with current financial resources and therefore not reported in the fund financial statements	<u>(14,000)</u>
Net position (deficit) of governmental activities	<u>\$ (9,838)</u>

See accompanying notes to basic financial statements.

PUERTO RICO TRAFFIC SAFETY COMMISSION
 (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES (DEFICIT) – GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014

17

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
REVENUES:			
Annual appropriations from the			
Fiscal agent	\$ 1,794,678	\$ -	\$ 1,794,678
Federal grant	-	5,780,404	5,780,404
Other	<u>3,814</u>	<u>-</u>	<u>3,814</u>
Total revenues	<u>1,798,492</u>	<u>5,780,404</u>	<u>7,578,896</u>
EXPENDITURES:			
Planning and administration	1,585,248	281,830	1,867,078
Impaired driver	-	736,874	736,874
Youth impaired driver	-	389,098	389,098
Police traffic safety	-	395,397	395,397
Occupant protection	-	288,169	288,169
Community programs	-	175,319	175,319
Non-occupant safety	-	309,555	309,555
Traffic engineering	-	147,912	147,912
Paid media	-	2,546,595	2,546,595
Motorcycle safety	-	80,670	80,670
Fatality analysis reporting system	-	53,816	53,816
Traffic record	-	272,149	272,149
Distracting driving	<u>-</u>	<u>106,121</u>	<u>106,121</u>
	<u>1,585,248</u>	<u>5,783,505</u>	<u>7,368,753</u>
NET CHANGE IN FUND BALANCE	213,244	(3,101)	210,143
FUND BALANCE (DEFICIT) AT BEGINNING	<u>656,052</u>	<u>(360,373)</u>	<u>295,679</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 869,296</u>	<u>\$ (363,474)</u>	<u>\$ 505,822</u>

See accompanying notes to basic financial statements.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Net change in fund balance-total governmental funds	\$ 210,143
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense and loss on disposal of assets exceeded capital outlays for the period.	(1,283)
Increase in accrued compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(81,689)
Decrease in accrued Christmas bonus reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>36,127</u>
Change in net position of governmental activities	<u>\$ 163,298</u>

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

19

Note 1 – Governmental Environment

Reporting Entity

The Puerto Rico Traffic Safety Commission (the Commission) is an agency of the Commonwealth of Puerto Rico created by the Act No. 33 of May 25, 1972, as amended, to plan, coordinate and evaluate the Highway Safety Programs carried out by various governmental agencies in Puerto Rico in conjunction with civic organizations and communication media.

On August 21, 1990, the Legislature of Puerto Rico enacted Act No. 14 amending Act No. 33 of May 25, 1972. Under this legislation, the Automobile Accidents Compensations Administration (AACA) is a public corporation and a component unit of the Commonwealth of Puerto Rico, shall appropriate and provide the Commission with the funds needed for its operations. The Commission is required to prepare a budget each year that will be presented to AACA for approval. The Commission is included for financial reporting purposes as an agency fund in the financial statements of AACA, which is included as a non-major component unit in the Commonwealth of Puerto Rico's financial statements.

The basic financial statements of the Commission are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the Commission. It does not intend to, and does not present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

In determining its financial reporting entity, the Commission has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Commission, or the significance of their relationship with the Commission are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability and other legally separate organizations for which the Commission is not financially accountable but the nature and significance of their relationship with the Commission may be such that exclusion of their basic financial statements from those of the Commission would cause the accompanying basic financial statements to be misleading or incomplete. These criteria include: (1) appointing a voting majority of an organization's governing body and the ability of the Commission to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Commission; (2) the economic resources for which the Commission is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Commission. Based on the above criteria there are no potential component units, which should be included in the basic financial statements for the fiscal year ended June 30, 2014.

Note 2 – Summary of significant accounting policies

a. **GASB 34**

The accompanying basic financial statements of the Commission have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standard Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* (GASB No. 34). This statement establishes financial reporting requirements for state and local governments. The Commission has adopted the provisions of GASB No. 34 as well as others statements referred to below.

b. **New Accounting Standards Adopted**

During the fiscal year 2014, the Commission adopted the new accounting standards as follows:

- **GASB Statement No. 65, Items Previously Reported as Assets and Liabilities:** This statement establishes accounting and financial reporting standards to reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for periods beginning after December 15, 2012.
- **GASB Statement No. 66, Technical corrections-2012, an amendment of GASB Statements No. 10 and No. 62:** This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The requirements of this statement are effective for periods beginning after December 15, 2012.

Note 2 – Summary of significant accounting policies (Continued)

c. Basic of presentation – fund accounting

The accounts of the Commission are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures. Fund financial statements report detailed information about the Commission's current financial resources. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

d. Governmental fund

The Commission reports the following major governmental fund:

General Fund – This is the Commission's primary operating funds. It reflects transactions related to resources received from the AACA, which are expended for those service traditionally provided by a government and that are not accounted for in any other fund.

Special revenue fund – This fund account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provides funds, or by outside parties. This fund accounts for substantially all federal monies received by the Commission.

e. Measurement focus and basis of accounting

Measurement focus refers to what is being measured in the financial statements, while basis of accounting refers to the timing in which transactions are recognized in the operating statements. The governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. when they become both measurable and available. Measurable means that the amount of the transaction can be determined or reasonably estimated or in a soon enough period after the balance sheet date to pay current budget period expenditures while available means collectible within the current period. Expenditures are recorded when the related fund liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

Note 2 – Summary of significant accounting policies (Continued)

f. Government-Wide

The Government-Wide financial statements include the Statement of Net Position and the Statement of Activities and display information of all the activities of the Commission as a whole. The Commission's activities are considered governmental type. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

g. Net position

Net position is the difference between assets and liabilities in government-wide financial statements. Net position might be reported in three (3) categories:

- 1) **Net investment in capital assets** – these consist of capital assets, net of accumulated depreciation.
- 2) **Restricted net position** – results when constraints placed on net position use is externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- 3) **Unrestricted net position (Deficit)** - this consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position (deficit) often has constraints on resources that are imposed by management, but can be removed or modified.

The Commission's governmental activities generally are financed through local and federal intergovernmental revenues and other non-exchange revenues. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and annual budget appropriations and allocations by AACA.

Note 2 – Summary of significant accounting policies (Continued)

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Cash with Fiscal Agent

The Commission's cash with fiscal agent are demand deposits in commercial banks and mainly held by AACA.

j. Receivables

Receivables in the special revenue fund represent amounts owed to the Commission for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

k. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

- 1. Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the balance sheet of the governmental funds and in the government-wide statement of net position (deficit). The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

Note 2 – Summary of significant accounting policies (Continued)

2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as unavailable revenue in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

I. Capital assets

All buildings and infrastructure occupied by the Commission are recorded as capital assets in the accounting records of other Agencies of the and others. Accordingly, all major modernizations and betterments, if any, done by the Commission are charged to expenditures, in its Fund accounting and reported as expense in the government-wide statements when incurred. All other assets used in the governmental operations are accounted for in the Governmental-wide financial statements of net position, rather than in the Governmental Funds. When capital assets are purchased, they are recorded as expenditures in the governmental funds. Fixed assets are stated at cost. When assets are sold, retired or otherwise disposed of, the cost is removed. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets range from five (5) to ten (10) years.

Also, the Commission periodically reviews long-live assets for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. No evidence of impairment is evident as a result of such review.

m. Non-exchange Transactions

GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions" established accounting and financial reporting standards for non- exchange transactions involving financial or capital resources (for example, most taxes, grants and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

Note 2 – Summary of significant accounting policies (Continued)

n. Pension Costs

The Commission's employees participate in the Retirement System of the Commonwealth of Puerto Rico, a multiemployer cost sharing plan. Accordingly pension costs recorded in the accompanying financial statements equals the statutory required contributions with a liability recorded for any unpaid required contributions.

o. Vacation and sick leave

The Commission's employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to maximum of 90 days for sick leave. Vacation and sick leave are recorded as benefits when earned. The estimated values of leave earned by employees, that may be used in subsequent years or paid upon termination or retirement, are accounted for in the governmental activities Statement of Net Position rather than in the governmental funds.

p. Fund Balance Reporting

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the General Fund, Special Revenue Fund Type, Capital Projects Fund Type, Debt Service Fund Type, And Permanent Fund Type are clarified by the provisions in this Statement.

Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The Capital Projects Fund Type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

GASB No. 54 requires the fund balance amounts to be properly reported within one of the fund balance category listed below:

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

26

Note 2 – Summary of significant accounting policies (Continued)

Non-spendable fund balance - such as balance associated with inventories, prepaid and long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted fund balance - this category includes amounts that can be spent only for the specific purpose stipulated by constitution, external source providers, or through enabling legislation.

Committed fund balance – this classification includes amounts that can be used only for specific purposes determined by a formal action of the entities' highest level decision making authority.

Assigned fund balance – this classification is intended to be used by the government for specific purposes but do not meet the criteria to be committed.

Unassigned fund balance – is the residual classification for the government's general fund and includes all expendable amounts not contained in the other classifications.

Note 3 – Risk financing

The Commission carries commercial insurance to cover casualty, theft, claims and other losses. The Commission's current insurance policies have not been cancelled or terminated. Also the Commission pays premiums for workers compensation to the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, which provides workers compensation to the Commission's employees in case of injuries in the workplace.

Note 4 – Cash

Cash at June 30, 2014 consist of Commission's State and federal awards funds which are deposited in commercial banks and held in custody by AACCA in accordance with the requirements of Act No. 33 of the Commonwealth of Puerto Rico, as amended.

PUERTO RICO TRAFFIC SAFETY COMMISSION
 (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2014

Note 5 – Capital Assets

Capital assets' activity of the Commission for fiscal year ended June 30, 2014 was as follows:

	<u>Balance as of July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2014</u>
Capital assets being, depreciated:				
Equipment	\$ 443,002	\$ 19,092	\$ 107,576	\$ 354,518
Vehicles	<u>120,708</u>	-	-	<u>120,708</u>
 Total capital assets being, depreciated	 <u>563,710</u>	 <u>19,092</u>	 <u>107,576</u>	 <u>475,226</u>
Less accumulated depreciation:				
Equipment	398,525	18,026	107,238	309,313
Vehicles	<u>118,697</u>	<u>2,011</u>	-	<u>120,708</u>
 Total accumulated depreciation	 <u>517,222</u>	 <u>20,037</u>	 <u>107,238</u>	 <u>430,021</u>
 Capital assets, net of accumulated depreciation	 <u>\$ 46,488</u>	 <u>\$ (945)</u>	 <u>\$ (338)</u>	 <u>\$ 45,205</u>

Depreciation expense amounting to \$20,037 was charged to the planning and administrative expense on the Statement of Activities for the year ended June 30, 2014.

Note 6 – Interfund Receivable/Payable

Interfund receivable/payable at June 30, 2014 consists of advances made by the General Fund to the Special Revenue Fund for the payment of Special Revenue Expenditures. The Special Revenue Fund has reimbursed most of the advances received from the general fund after June 30, 2014.

Note 7 – Due to AACA

The Commission has an account payable of \$580,971 with the AACA. This represents amounts provided, with a requirement for repayment, to cover certain expenses/expenditures in excess of related revenue or grant.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

28

Note 8 – Accrued compensated absences

The vested compensated absences liability balance at June 30, 2014 consists of the following activity:

	<u>Balance as of June 30, 2013</u>	<u>Net Change</u>	<u>Balance as of June 30, 2014</u>	<u>Due within one year</u>
Accrued vacations and sick leave	\$ 465,176	\$ 81,689	\$ 546,865	\$ 54,687
Christmas Bonus	<u>50,127</u>	<u>(36,127)</u>	<u>14,000</u>	<u>14,000</u>
	<u>\$ 515,303</u>	<u>\$ 45,562</u>	<u>\$ 560,865</u>	<u>\$ 68,687</u>

Note 9 - Contingencies

Litigation and claims

The 's Law No. 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico , present and former employees, directors and other may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the General Fund. However, the Secretary of the Treasury of the has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants.

The Commission is involved in litigation arising in the normal course of operations. The Commission believes that the ultimate liability, if any, in connection with these matters will not have a material effect on the Commission's financial position and results of operations.

Note 9 – Contingencies (Continued)

Pension plan benefits

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Board hired before January 1, 2000 and with less than 55 years of age at the date of employment, became participants of the Retirement System as a condition to their employment. Employees hired after January 2000, were covered by Act No. 305 of 1999, also known as System 2000. Also, employees hired prior that date were also allowed to elect to participate in System 2000, instead of the prior plan. However, on April 4, 2013, the Governor of Puerto Rico signed into Law Act No. 3 of 2013, which represents a comprehensive reform of Retirement System, which became effective on July 1, 2013.

A summarized description of the different benefits under each Act is as follows:

a) Act No. 447 of 1951

The Retirement System provides retirement, death and disability benefits pursuant to Act No. 447 enacted by the Commonwealth's Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities.

However, a member must have at least ten years of service to receive non-occupational disability benefits.

Participants who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$400 per month.

Note 9 – Contingencies (Continued)

Pension plan benefits (Continued)

Participants who have completed at least 30 years of creditable service are entitled to receive a Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined. Otherwise, they will receive 75% of the average compensation, as defined.

No benefits are payable if the participants receives a refund of his/her accumulated contributions upon termination.

Commonwealth Legislation requires employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% of the excess over \$550 of monthly gross salary. The Commission is required by the same statute to contribute **10.275%** of the participant's gross salary. As required by Act. No. 116 of July 6, 2011, the employer's contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

b) System 2000

The Legislature of the Commonwealth of Puerto Rico enacted Act No. 305 on September 24, 1999, which amends Act No. 447, to establish, among other provisions, a defined contribution savings plan program known as System 2000 (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and employees who are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Employees must contribute an 8.275% of their monthly gross salary to the Program and may elect to increase their contribution up to 10%. Employee contributions are credited to his/her individual account established under the program. Participants may direct their contributions to three different investments options. Investment income is credited to the participant's account semiannually.

Note 9 – Contingencies (Continued)

Pension plan benefits (Continued)

Under this Act, the Commission is required to contribute 10.275% of the participant's gross salary. The Retirement System will use these contributions to increase its assets level to reduce the unfunded status of the defined pension plan.

Upon retirement, the balance of the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit payable to the participant during his/her life, and upon death of the participant 50% of such benefit to the participant's beneficiaries. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, this lump-sum payment will be made to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Pension plan benefits (Continued)

c) Act No. 3 of 2013

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the Retirement System. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the Retirement System, including, but not limited to the following:

- For active participants of the contributory defined benefit programs under Act. No. 447 of 1952 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2014 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increased the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminated the Merit Annuity available to participants who joined the Retirement System prior to April 1, 1990.

Note 9 – Contingencies (Continued)

Pension plan benefits (Continued)

- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate increased from 8.275% to 10%.
- Employer contribution rate increased to 12.275%. This contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, it will be increased by 1.25% annually until June 30, 2021.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump-sum distribution; instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.

Federal awards

The Commission participates in a number of federal assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor.

Claim from NHTSA

On May 18, 2011, the National Highway Traffic Safety Administration (NHTSA) designated the Commission as high risk grantee due to lack of conformance with terms and conditions of highway safety grants awards. When this designation was notified NHTSA was questioning the expenditure of approximately \$5,119,737 related to the programs in Sections 154 and 164 of Alcohol-Impaired Driving Fund. Subsequent reviews resulted in allegations of additional improper grant expenditures related to the funds under Sections 154, 164 and 410 used to purchase vehicles in the fiscal years 2009 and 2010 amounting to \$796,190. NHTSA argues that the Commission and the Commonwealth of Puerto Rico (CPR) were unable to substantiate the use of the grant funds in accordance to federal regulations. The total amount under federal is assessed in \$5,915,927.

Note 9 – Contingencies (Continued)

Based on the above, on June 4, 2014, the US Department of Transportation (USDT) issued a formal request the CPR and the Commission the reimbursement of those funds.

On October 1, 2014, a formal response to the reimbursement request issued by the USDT was made by the Secretary of the Department of Transportation and Public Works of Puerto Rico (DTOP). The Secretary argues that the repayment of the amount requested would hinder the major accomplishments being made by the Commission in the reduction of alcohol-impaired driving related deaths, crashes and injuries. As an alternative, the Secretary requested a payment credit for various expenditures made by the CPR on related matters.

At the date of the financial statements, the course of action for the resolution of the reimbursement claim is still under NHTSA scrutiny. No formal answer to the credit request has been issued by NHTSA.

Deficit

The Special Revenue Fund has a deficit amounting to \$363,474, which will be covered with future annual approximations of the general fund, if necessary.

Note 10 – Commitments

Operating leases - The Commission leases office and parking space, and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Commission's opinion upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2014 amounted to approximately \$30,447.

Note 11 – Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2014:

- **GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27:** This statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pension and paying benefits to plan members as they come due. The requirements of this statement are effective for periods beginning after June 15, 2014.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2014

34

Note 11 – Future adoption of accounting pronouncements (Continued)

- **GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68:** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

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

Note 12 – Subsequent events

Subsequent events were evaluated through March 11, 2015, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraph.

On June 17, 2014, the Government of Puerto Rico signed into Law the "Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act" (Act 66-2014), which declared a state of emergency for fiscal and economic recovery in order to enable budgetary balance, phase out market financing of operating budgets and maximize liquidity to ensure the payment of debt and continuity of public services. The Act establishes several saving measures and governance provisions for fiscal year beginning on July 1, 2014 and applies to all entities of the Executive Branch of the Commonwealth of Puerto Rico, including agencies, instrumentalities with independent treasury and public corporations.

PUERTO RICO TRAFFIC SAFETY COMMISSION
 (AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor And Program or Cluster</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
US Department of Transportation		
National Highway Traffic Safety Administration Highway Safety Cluster		
State and Community Highway Safety Program	20.600	\$ 1,761,722
Alcohol Traffic Safety and Drink Driving Countermeasures Incentive Grant	20.601	1,050,342
Occupant Protection Incentive Grants	20.602	126,941
Fatality Analysis reporting System	20.614	53,816
State Traffic Information System	20.610	272,149
Alcohol Open Container Requirements	20.607	783,561
National Priority Safety Program - Section 405b Occupant Protection Grant	20.616	246,828
Minimum Penalties for Repeat Offenders for Driving While Intoxicate	20.608	<u>1,488,146</u>
		<u>\$ 5,783,505</u> =====

The accompanying notes are an integral part of this schedule.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

36

GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the funds expended by the Commission from all federal programs for the year ended June 30, 2014. The Commission's reporting entity is defined in Note 1 to the financial statements.

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization and was prepared following the modified accrual basis of accounting.

RECONCILIATION TO FINANCIAL STATEMENTS

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has being reconciled to the information reported in the Commission's basic financial statements.

SUBRECIPIENTS

During the year ended June 30, 2014, the Commission made payments of federal awards to sub-recipients in the amount of \$2,950,838.

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

Puerto Rico Traffic Safety Commission
(An Executive Agency of the
Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico) ("the Commission")** as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 11, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Commission's internal control. Accordingly, we do not express an opinion on the effectiveness the Commission's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items **2014-01** and **2014-02** to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. No significant deficiencies were notes during the audit.

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

Compliance and other matters

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

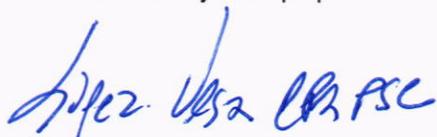
We noted certain other matters that we reported to management of the Commission in a separate letter dated March 11, 2015.

Commission's Response to Findings

Commission's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 11, 2015

Stamp No. 2675897 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Puerto Rico Traffic Safety Commission
(An Executive Agency of the
Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the **Puerto Rico Traffic Safety Commission (An Executive Agency of the Commonwealth of Puerto Rico) ("the Commission")** compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2014. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

Opinion on Highway Traffic Safety Cluster

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Highway Traffic Safety Cluster Grants for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2014-03**, and **2014-04**. Our opinion on each major federal program is not modified with respect to these matters.

The Commission's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

Report on Internal Control over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2014-01** and **2014-02** to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2014-03** and **2014-04** to be significant deficiencies.

The Commission's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing base on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 11, 2015

Stamp No. 2705422 of the
Puerto Rico Society of Certified
Public Accountants was affixed
to the record copy of this report.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

42

Section I - Summary of Auditors' Report

1. The Independent Auditors' Report expresses a qualified opinion on the basic financial statements of the Commission.
2. The Independent Auditors' Report on internal control over financial reporting, disclose two (2) material weaknesses to the financial statements during the audit of the financial statements.
3. The Independent Auditors' Report on compliance with requirements applicable to major federal programs expresses an unmodified opinion.
4. The independent auditors' report on internal control over compliance with requirements applicable to major federal programs includes two (2) instances of noncompliance (reported as items 2014-03 and 2014-04). These instances of noncompliance are also considered to be significant deficiencies. In addition, two (2) material weaknesses were noted (reported as items 2014-01 and 2014-02).
5. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Section III of this Schedule.
7. The programs tested as major programs included:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
20.600	State and Community Highway Safety Program
20.601	Alcohol Traffic Safety and Drunk Driving Countermeasures Incentive Grant
20.607	Alcohol Open Container Requirements
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Commission was not determined to be a low risk auditee.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

43

Section II – Financial Statement Findings

Finding Reference: 2014-01

Condition:

The inadequacy of the Commission's accounting records did not permit us to extend our auditing procedures sufficiently to satisfy ourselves about certain accounts receivable balance from prior years recorded on the special revenue fund as of June 30, 2014 (stated at **\$1,014,110**).

The Commission did not provide the information as to completeness of the aging of accounts receivable and accounts payable.

Criteria:

Section C (1)(j) of the OMB Circular A-87 "Factors affecting allowability of costs" establishes that to be allowable under Federal awards, costs must be adequately documented.

CFR 7, Part 3016 – Subpart C "Post-Award Requirements" – Section 3016.20 "Standards for financial management systems", and 45 CFR 92.20 (b) (2) establishes that:

- (2) Accounting records. Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc.

Section II – Financial Statement Findings

Section (b) (1) of CFPR 7 3016.36 and 45 CFPR 92.36 (b) establish that Grantees and sub-grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Sections (a) and (b) of 7 CFPR 3016.42 establish that all financial and programmatic records, supporting documents, statistical records, and other records of grantees or sub-grantees are required to be maintained by the terms of this part, program regulations or the grant agreement, or otherwise reasonably considered as pertinent to program regulations or the grant agreement. Records must be retained for three years except as otherwise provided.

Cause of condition:

This was caused by the lack of adequate procedures and infrastructure, including professionals with the adequate authority and responsibility for the supervision and analysis of the general accounting and records during prior years.

Effects of Condition:

Managerial decisions may be executed using unreliable assumptions on financial information.

Recommendation:

We recommend the Commission to establish adequate procedures and controls, which shall consider, among others, the following:

Maintain adequate documentation to support the allowability of its receivable. The Commission shall improve its internal control over the filing and safeguarding of documents in order to provide them on time for the auditor's review.

Establish and implement written policies and procedures for all aspects of the programs, including controls for the safeguarding of supporting documentation related to financial transactions.

Provide adequate training to employees regarding each program requirements and proper receivable processing procedures, and as to the importance of safeguarding procedures and the proper coordination and communication for the retrieval of documents when needed.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Section II – Financial Statement Findings (Continued)

Management's Response:

Management agrees.

Finding Reference: 2014-02

Condition:

The Commission's expenditures recorded in the special revenue fund are reimbursed 100% by federal awards. Therefore the revenues from the federal awards recorded in this fund should equal the amount of the expenditures. The Special Revenue Funds shows an accumulated deficiency of \$363,474 which represents excess of expenditures incurred in prior years over the related federal award reimbursement.

Criteria:

Generally Accepted Accounting Principles require that related revenues and expenses/expenditures be recorded in the corresponding accounting period. In addition, the Commission should be reimbursed for all expenditures that qualify as allowable activity under federal programs.

Cause of condition:

In prior years, no monthly reconciliations were prepared for revenues and expenditures reimbursed with federal award. As a result errors were not detected on a timely basis.

Effect of condition:

The Commission is not being reimbursed for expenditures incurred that qualify as allowable activities under federal grants resulting in a negative impact in the Commission's cash flow. In addition, because of the matters discussed above, errors or differences were not detected by personnel in charge of federal awards and accounting records.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

46

Section II – Financial Statement Findings (Continued)

Recommendation:

In order to correct this situation in the future, controls and procedures related to the process of federal awards expenditures and reimbursements should be strengthened to require timely processing of expenditures and the related reimbursement, reconciliations of amounts with the accounting records and the use of mechanized system to accumulate federal awards expenditures and reimbursements for each federal award.

This matter should be analyzed by the Commission to determine the reason for such deficiency and to identify the sources of funds to be used to finance the deficiency. Differences should be promptly investigated. If after the analysis management determines that the deficiency is correct, management should identify the sources of funds to be used in the payment of this liability.

Management's Response:

During the fiscal year 2014, all federal awards and related reimbursement requests were recorded in the corresponding federal program and related grant award year.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

47

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Reference: 2014-03
Requirement: Sub-recipient Monitoring
Federal Program: Highway Traffic Safety Cluster

Statement of Condition:

We performed a sub-recipient monitoring test and examine 10 project files. Following is the summary of the situations noted:

- In one (1) case the required onsite visit was not performed.

Criteria:

The Code of Federal Regulations 49, Subpart C, Sec. 18.40 (a), states that grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Cause of Condition

The Commission's controls and procedures related to the Sub-recipient Monitoring failed to assure that all monitoring activities were made according with federal and local regulations.

Effect of Condition

The Commission is not in compliance with certain provisions of the Code of Federal Regulations 49, Subpart C, Sec. 18.40 (a).

Recommendation

We recommend management to strengthen its monitoring procedure, including give specific instruction and training to the Commission monitors.

Questioned Costs - None.

Management Response - The Commission agrees with the finding.

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Number: 2014-04
Requirement: Reporting
Federal Program: Highway Traffic Safety Cluster

Statement of Condition:

During our test over the reports submitted to the grantor agency, we found that the Commission did not submit the required information regarding the Federal Funding.

Criteria:

Section 1304.2 "Aspects of the Federal Funding Accountability and Transparency Act" (Pub. L.109-282) (Transparency Act), as amended by Section 6202(a) of the Governmental Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to sub-award reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 et seq., September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010 (75 FR 39414 et seq., July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by a final issuance. If the final issuances include any changes to the interim requirements, they will have new effective dates. The requirements pertain to recipients (i.e., direct recipients) of the grants or cooperative agreements who mask first-tier sub-awards and contractors (i.e., prime contractors) that award first-tier subcontractor. There are limited exceptions as specified in 2 CFR part 170 and FAR. The guidance at 2 CFR part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a federal agency to a recipient. However, the reporting requirements apply to all types of first-tier sub-awards under a grant or cooperative agreement.

As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

2 CFR, Subpart 170.330, established requirements for recipients to report information about first-tier sub-awards and executive compensation. In this sub-part is stated the applicability, where, when and what to report.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Cause of Condition:

There were no procedures established to assure that the Commission complies with new reporting requirements applicable to the program.

Effect of Condition:

The Commission is not in compliance with the CFR, subpart 170.

Recommendation:

We recommend that the Commission strengthen its procedures in order to assure that all reports required by the program be submitted to the federal agencies as stated in regulation.

Grant and cooperative agreement recipients and contractors are required to register in the Financial and report sub-award data through FSRS and report sub-award data through FSRS. To do so, Commission will first be required to register in Central Contractor Registration.

OMB has issued several documents that provide guidance on the reporting requirements under the Transparency Act. Among them are Open Governmental Directive – Federal Spending Transparency (April 6, 2010) and Open Government Directive- Federal Spending Transparency and Sub-award and Compensation Data Reporting (August 27, 2010)

Questioned Cost:

None

Management Response:

The Program will comply with FFATA reporting requirements for all first-tier sub-awards (sub-grants and subcontracts). A procedure will be established delineating the threshold, responsibilities in data collection and reporting.

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

50

Finding Reference: 2013-01

Finding Type: Financial Reporting

Condition:

The inadequacy of the Commission's accounting records did not permit us to extend our auditing procedures sufficiently to satisfy ourselves about accounts receivable for the general fund for the year ended June 30, 2012 (stated at \$1,014,110). The Commission did not provide the information as to completeness of the aging of accounts receivable and accounts payable.

Management's Response:

Management agrees.

Status: Still prevails

Finding Reference: 2013-02

Finding Type: Financial Reporting

Condition:

The Commission's expenditures recorded in the Special Revenue Fund are reimbursed 100% by federal awards. Therefore the revenues from the federal awards recorded in this fund should equal the amount of the expenditures. The Special Revenue Funds shows an accumulated deficiency of \$360,373 which represents excess of expenditures incurred in prior year over the related federal award reimbursement.

Management's Response:

During the fiscal year 2014, all federal awards and related reimbursement requests were recorded in the corresponding federal program and related grant award year. No additional restatement adjustments have been identified nor required after June 30, 2014.

Status: Still prevails

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

51

Finding Reference: 2013-03
Finding Type: Federal Awards
Type of Compliance: Cash Management

Condition:

Certain Federal funds were received by the Commission; however AACA did not reimburse the sub-grantees on a timely basis.

Management's Response:

A corrective action plan will be developed in coordination with AACA, as the Commission's fiscal agent, so that procedures are implemented to minimize the time elapsed between receipt of federal funds and subsequent reimbursement to sub-grantees.

Status: Corrected

Finding Reference: 2013-04
Finding Type: Federal Awards
Type of Compliance: Sub-recipient Monitoring

Condition:

Certain deficiencies identified in the monitoring procedures for the SCHS program. As a result, there is an increased risk that noncompliance could occur at the sub-recipient level and not be detected in a timely manner.

Management Response

The Commission agrees with the finding.

Status: Still prevails

PUERTO RICO TRAFFIC SAFETY COMMISSION
(AN EXECUTIVE AGENCY OF THE COMMONWEALTH OF PUERTO RICO)

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

52

Finding Reference: 2013-05
Finding Type: Federal Awards
Type of Compliance: Reporting

Condition:

The Commission did not submit their Single Audit reporting package (Single Audit Report, Data Collection Form and a corrective action plan) and the data collection report within the required time period.

Management Response:

The Commission will develop and implement formal policies and procedures manual with uniform procedures for the accounting system to generate the information necessary to comply with this reporting requirement.

Status: Corrected

Finding Reference: 2012-07
Finding Type: Federal Awards
Type of Compliance: Reporting

Condition:

The Commission did not submit the required information regarding the Federal Funding.

Management Response:

The Program will comply with FFATA reporting requirements for all first-tier sub-awards (sub-grants and subcontracts). A procedure will be established delineating the threshold, responsibilities in data collection and reporting.

Status: Still prevails