



**guzmán torres & co., psc**  
certified public accountants & business advisors

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

**AUDITED FINANCIAL STATEMENTS AND  
SINGLE AUDIT OF FEDERAL FINANCIAL  
ASSISTANCE PROGRAMS  
*YEAR ENDED JUNE 30, 2010***

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**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

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YEAR ENDED JUNE 30, 2010

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## **INDEPENDENT AUDITORS' REPORT**

Commonwealth of Puerto Rico  
Traffic Safety Commission  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Commonwealth of Puerto Rico Traffic Safety Commission ("the Commission") as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Commission's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, 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 our opinion, 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 Commission, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report, dated February 22, 2011 on our consideration of the Commission's internal control over financial reporting and on our tests 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis information on pages 3 through 6 and the Budgetary Comparison Schedules on pages 19 through 20 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated, in all material respects, in relation to the basic financial statements.

*Guzmán Torres & Co., P.S.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
February 22, 2011

Stamp # **2583848**  
was affixed to  
the original of  
this report.

# **COMMONWEALTH OF PUERTO RICO TRAFFIC SAFETY COMMISSION**

## **MANAGEMENT DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2010**

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The following discussion and analysis of the financial performance and activity of the Commonwealth of Puerto Rico Traffic Safety Commission (“the Commission”) provides an introduction and understanding of the basic financial statements of the Commission for the fiscal years ended June 30, 2010. 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***

Net assets deficiency at June 30, 2010 amounted to \$927,003

Net assets deficiency increased by \$30,059 during the year ended June 30, 2010

### ***Overview of the Financial Statements***

This discussion and analysis 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.

### ***Restatement of Prior Years Financial Statements***

During the year ended June 30, 2010 management evaluated the accounts receivable from federal awards recorded in the special revenue fund and determined that such receivable as reported in the financial statements for the year ended June 30, 2009 was overstated by a net amount approximately \$1,304,871. In addition management determined that due to cut-off errors federal awards revenues net of related expenditures were understated in prior years in the amount of \$420,118. As the result net assets as reported in the government wide financial statements and fund balance as reported in the special revenue fund financial statements at June 30, 2009 were overstated by \$884,753. Financial statements for the year ended June 30, 2009 were restated to correct such errors.

The analysis in this section is made after taken into consideration the above restatement to the 2009 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.

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 (e.g., vacation leave).

### ***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 governmental funds.

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 fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances 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 fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Revenue Grants Fund.

The Commission received annual appropriated funds from the Commonwealth of Puerto Rico Automobile Accidents Compensations Administration (ACCA) for its general funds.

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

### ***Notes to the financial statements***

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

### ***Government-wide Financial Analysis***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, liabilities of the Commission's governmental activities exceeded assets by \$927,003 at June 30, 2010 as compared to the net assets deficiency of \$896,944 in June 30, 2009 after the restatement described above.

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 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.

A condensed summary of the statement of net assets of the governmental activities of the Commission as the June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
		<i>Restated</i>
Current assets	\$ 4,920,392	\$ 4,725,414
Capital assets	<u>43,406</u>	<u>69,378</u>
Total assets	<u>\$ 4,963,798</u>	<u>\$ 4,794,792</u>
Current liabilities	\$ 5,461,168	\$ 5,252,277
Long-term liabilities	<u>429,633</u>	<u>439,459</u>
Total liabilities	<u>5,890,801</u>	<u>5,691,736</u>
Net Assets:		
Invested in capital assets, net of related debt	43,406	69,378
Unrestricted deficit	<u>(970,409)</u>	<u>(966,322)</u>
Total net assets	<u>(927,003)</u>	<u>(896,944)</u>
Total liabilities and net assets	<u>\$ 4,963,798</u>	<u>\$ 4,794,792</u>

Net assets serve as an indication of the Commission's financial position at the end of the fiscal year. In the case of the Commission total liabilities exceeded net assets by \$927,003 and \$896,944 at June 30, 2010 and 2009 respectively. The largest portion of the Commission's net deficiency corresponds to unrestricted net assets in both years.

Governmental activities decreased the Commission's net assets by \$30,059 during the year ended June 30, 2010. A summary of the governmental activities during the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Program revenues:		<i>Restated</i>
Operating grants and contributions	\$ 14,928,246	\$ 13,724,720
Expenses:		
Planning and administration	1,338,538	1,981,511
Impaired driver	2,125,563	2,802,972
Youth impaired driver	132,276	381,010
Police traffic safety	2,529,857	1,638,657
Occupant protection	574,065	509,298
Community programs	1,247,497	549,125
Non-occupant safety	370,759	584,670
Traffic engineering	1,916,994	2,531,163
Paid media	4,433,697	3,162,795
Motorcycle safety	208,110	292,073
Fatality analysis reporting system	58,711	48,407
Traffic records	22,238	-
Total expenses	<u>14,958,305</u>	<u>14,481,681</u>
Change in net assets	(30,059)	(756,961)
Net assets (deficiency) at beginning of year	<u>(896,944)</u>	<u>(139,983)</u>
Net assets (deficiency) at end of year	<u>\$ (927,003)</u>	<u>\$ (896,944)</u>

Program revenues and operating grants consist of state funds allocation from the Commonwealth of Puerto Rico Automobile Accidents Compensations Administration (ACCA) in the amount of approximately \$1,179,000 and federal awards received from the National Highway Traffic Safety Administration (NHTSA) in the amount of \$13,749,000. All of the Commission's programs are financed with federal awards received from NHTSA.

Planning and administration expenses consist principally of personnel compensation and related benefits and are financed principally with the state funds received from ACCA 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 as per the federal awards laws and regulations. The excess of expenditures over related revenues or grant in the special revenue fund consist principally of expenditures incurred that will not be reimbursed by NHTSA because the grant period expired.

## CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

*This financial report is designed to provide our patrons, and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Commonwealth of Puerto Rico Traffic Safety Commission, Finance Area, P.O. Box 41289 Minillas Station 00940.*

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

**STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES  
JUNE 30, 2010**

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ASSETS:

Cash held in trust by the Automobile Accidents Compensations Administration	\$ 378,621
Accounts receivable:	
Federal grants	3,762,921
Automobile Accidents Compensations Administration	778,850
Capital assets net of accumulated depreciation	<u>43,406</u>
Total assets	<u>\$ 4,963,798</u>

LIABILITIES:

Accounts and accrued expenses payable	\$ 5,461,168
Long-term liabilities	
Compensated absences	<u>429,633</u>
Total liabilities	<u>5,890,801</u>

NET ASSETS:

Invested in capital assets, net of related debt	43,406
Unrestricted (deficit)	<u>(970,409)</u>
Total net assets	<u>(927,003)</u>
Total liabilities and net assets	<u>\$ 4,963,798</u>

The accompanying notes are integral part of the financial statements

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

**STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
YEARS ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Planning and administration	\$ 1,338,538	\$ 1,473,375	\$ 134,837
Impaired driver	2,125,563	2,125,392	(171)
Youth impaired driver	132,276	133,535	1,259
Police traffic safety	2,529,857	2,524,836	(5,021)
Occupant protection	574,065	574,220	155
Community programs	1,247,497	1,246,268	(1,229)
Non-occupant safety	370,759	369,891	(868)
Traffic engineering	1,916,994	1,893,782	(23,212)
Paid media	4,433,697	4,305,370	(128,327)
Motorcycle safety	208,110	199,759	(8,351)
Fatality analysis reporting system	58,711	59,487	776
Traffic record	22,238	22,331	93
Total governmental activities	<u>\$ 14,958,305</u>	<u>\$ 14,928,246</u>	
Change in net assets			<u>(30,059)</u>
Net assets (deficit) at beginning of year:			
As previously reported			(12,191)
Prior period adjustment			<u>(884,753)</u>
As restated			<u>(896,944)</u>
Net assets (deficit) at end of year			<u>\$ (927,003)</u>

The accompanying notes are integral part of the financial statements

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash held in trust by the Automobile Accidents Compensations Administration	\$ 17,865	\$ 360,756	\$ 378,621
Accounts receivable:			
Federal grants	-	3,762,921	3,762,921
Automobile Accidents Compensation Administration	778,850	-	778,850
Due from general fund	-	701,660	701,660
<b>TOTAL</b>	<u>\$ 796,715</u>	<u>\$ 4,825,337</u>	<u>\$ 5,622,052</u>
<b>LIABILITIES:</b>			
Accounts and accrued expenses payable	\$ 141,965	\$ 5,319,203	\$ 5,461,168
Due to special revenue fund	701,660	-	701,660
Total liabilities	843,625	5,319,203	6,162,828
<b>FUND BALANCES (DEFICIT)</b>	<u>(46,910)</u>	<u>(493,866)</u>	<u>(540,776)</u>
<b>TOTAL</b>	<u>\$ 796,715</u>	<u>\$ 4,825,337</u>	<u>\$ 5,622,052</u>

The accompanying notes are integral part of the financial statements

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010

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Total fund balance deficit for governmental funds \$ (540,776)

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

Capital assets, net of accumulated depreciation, used in governmental  
activities are not financial resources and, therefore, are not  
reported in the funds 43,406

Long-term liabilities for compensated absences, are not due and payable  
in the current period and, therefore are not reported in the funds (429,633)

Net asset (deficit) of governmental activities \$ (927,003)

The accompanying notes are integral part of the financial statements

**COMONWEALTH OF PUERTO RICO**  
**TRAFFIC SAFETY COMMISSION**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
<b>REVENUES:</b>			
Annual appropriations from the Automobile Accidents Compensation			
Administration	\$ 1,178,969	\$ -	\$ 1,178,969
U.S. federal grants	-	13,749,277	13,749,277
Total revenues	<u>1,178,969</u>	<u>13,749,277</u>	<u>14,928,246</u>
<b>EXPENDITURES:</b>			
Planning and administration	1,026,593	295,799	1,322,392
Impaired driver	-	2,125,563	2,125,563
Youth impaired driver	-	132,276	132,276
Police traffic safety	-	2,529,857	2,529,857
Occupant protection	-	574,065	574,065
Community programs	-	1,247,497	1,247,497
Non-occupant safety	-	370,759	370,759
Traffic engineering	-	1,916,994	1,916,994
Paid media	-	4,433,697	4,433,697
Motorcycle safety	-	208,110	208,110
Fatality analysis reporting system	-	22,238	22,238
Traffic record	-	58,711	58,711
Total expenditures	<u>1,026,593</u>	<u>13,915,566</u>	<u>14,942,159</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>			
<b>EXPENDITURES</b>	152,376	(166,289)	(13,913)
<b>OTHER FINANCING SOURCES:</b>			
Transfers in (out)	<u>(557,176)</u>	<u>557,176</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(404,800)</u>	<u>390,887</u>	<u>(13,913)</u>
<b>FUND BALANCE (DEFICIT):</b>			
At beginning of year			
As previously reported	357,890	-	357,890
Prior period adjustment	-	(884,753)	(884,753)
As restated	<u>357,890</u>	<u>(884,753)</u>	<u>(526,863)</u>
At end of year	<u>\$ (46,910)</u>	<u>\$ (493,866)</u>	<u>\$ (540,776)</u>

The accompanying notes are integral part of the financial statements

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

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Net change in fund balance - total governmental funds \$ (13,913)

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

Governmental funds report capital outlay as expenditures.

However in the statement of activities, the cost of those assets is allocated over the estimated useful life as depreciation expense. In the current period the amount by which capital outlays exceed depreciation expense is as follows

Capital outlays	\$ 8,744	
Depreciation expense	<u>(34,716)</u>	(25,972)

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

These activities consist of:

Decrease in compensated absences	<u>9,826</u>
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Change in net assets governmental activities \$ (30,059)

The accompanying notes are integral part of the financial statements

# COMMONWEALTH OF PUERTO RICO

## TRAFFIC SAFETY COMMISSION

NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Traffic Safety Commission (Commission) is an agency of the Commonwealth of Puerto Rico created by the Law 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 Law Number 14 amending Act No. 33 of May 25, 1972. Under the new legislation, the Automobile Accidents Compensations Administration (ACAA, by its acronym in Spanish), an agency 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 ACAA for approval.

#### **Reporting Entity**

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. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commission. Based on the above criteria there are no potential component units, which should be included in the basic financial statements.

#### **Government Wide and Funds Financial Statements**

The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments focuses on the Commission as a whole in the government-wide financial statements and major individual funds in the fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the Commission. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in two categories:

*Investment in Capital Assets, net of related debt* - This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by

outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

***Unrestricted Net Assets*** - This category represents net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

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 ACCA.

Separate financial statements are provided for governmental funds.

### **Basis of Presentation**

The accompanying financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have been prepared primarily from accounts maintained by the Commission.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include federal grants and contracts. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The State reports the following major governmental funds:

***General Fund*** - This is the Commission's primary operating fund. It reflects transactions related to resources received and used for those services traditionally provided by a government, which is not accounted for in any other fund.

**Special Revenue Funds** - Reflect transactions related to resources received and used for restricted or specific purposes. This fund accounts for substantially all federal monies received by the Commission.

### **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.

### **Receivables**

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

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.

### **Capital Assets**

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. A capital asset is defined by the Commission as an asset with an initial cost of more than \$25 and an estimated useful life of more than one year. Depreciation and amortization is computed on a straight-line method over the estimated useful life of the related asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives of the major classes of capital assets are as follows:

Office furniture, equipment and fixtures	5 to 10 years
Computer equipment and software	3 years

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

### **Vacation and Sick Leave**

Compensated absences are accrued when earned by the employees. Employees may carryforward their compensated absences as permitted by statute and may settle them in a cash payment from the Commission, if employment has ceased. The Commission's employees can accrue up to 30 days of regular vacations and 18 days of sick leave per year. Regular vacations can be accumulated up to 60 days and sick leave up to 90 days.

The Commission accrues the compensated absences liability when incurred in the government-wide financial statements. Vacation and sick leave pay are reflected as expenditure in the General Fund when paid.

**Risk Financing**

The Commission carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Commission has not settled any claims in excess of its insurance coverage during the past three years. The Commission also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

**2. CASH AND CASH EQUIVALENTS**

Cash at June 30, 2010 consist of cash deposited in three bank accounts with commercial banks held in trust by ACCA. All of the Commission’s state and federal awards funds are deposited in these bank accounts which are administered by ACCA in accordance with the requirements of Law No 33 of the Commonwealth of Puerto Rico, as amended.

ACCA represented that the accounts are in banks approved by the Treasury Department of the Commonwealth of Puerto Rico and are kept in the name of ACCA for the benefit of the Commission.

**3. CAPITAL ASSETS**

The following schedule summarizes the capital assets held by the Commission as of June 30, 2010:

	<u>Balance at June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>
<b>Governmental Activities:</b>				
<b>Assets being depreciated:</b>				
Equipment	\$ 194,963	\$ 382	\$ -	\$ 195,345
Furnitures and fixtures	93,113	-	-	93,113
Computer equipment	150,811	8,362	-	159,173
Total	438,887	8,744	-	447,631
Less accumulated depreciation	369,509	34,716	-	404,225
Capital assets being depreciated, net	<u>69,378</u>	<u>(25,972)</u>	<u>-</u>	<u>43,406</u>

**4. INTERFUND RECEIVABLE/PAYABLE**

Interfund receivable/payable at June 30, 2010 consists of advances made by the special revenue fund to the general fund for the payment of general fund’s expenditures. The general fund has reimbursed most of the advances received from the special revenue fund after June 30, 2010.

## 5. LONG-TERM LIABILITY

A summary of the activity in the long-term liability during the year ended June 30, 2010 follows:

	<u>Balance at</u> <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>2010</u>	<u>Current</u> <u>Portion</u>
Compensated absences	\$ 439,459	\$ 31,207	\$ (41,033)	\$ 429,633	\$ -

## 6. RETIREMENT PLAN

Substantially all the Commission's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2010 was approximately \$5.4 million.

All of the Commission's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Commission on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of

defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Total employer contributions during the year ended June 30, 2010 under this plan amounted to approximately \$195,000.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010 and 2009, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

## **7. COMMITMENTS AND CONTINGENT LIABILITIES**

### **Litigation**

The Commonwealth of Puerto Rico's Law 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, mayors, 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 Commonwealth of Puerto Rico General Fund. However, the Secretary of the Treasury of the Commonwealth of Puerto Rico 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 its ultimate liability, if any, in connection with these matters will not have a material effect on the Commission's financial condition and results of operations.

### **Federal Assistance Programs**

The Commission is a recipient of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Commission expects such amounts, if any, not to be significant.

## **8. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2010 management evaluated the accounts receivable from federal awards recorded in the special revenue fund and determined that such receivable as reported in the financial statements for the year ended June 30, 2009 were overstated by a net amount of \$1,304,871. In addition management determined that due to cut-off errors federal awards revenues net of expenditures were understated in prior years in the amount of \$420,118. As the result net assets as reported in the government wide financial statements and fund balance as reported in the special revenue fund financial statements at June 30, 2009 was overstated by \$884,753. Therefore financial statements for the year ended June 30, 2009 were adjusted to correct such errors.

## **9. TRANSFERS BETWEEN FUNDS**

Transfers between funds during the year ended June 30, 2010 consist principally of adjusted cash balances which were presented in general funds at June 30, 2009 when such cash belongs to the special revenue fund.

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED JUNE 30, 2010**

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	Budget	Actual	Variance
REVENUES:			
Annual allocation from Commonwealth of Puerto Rico Automobile Accidents Compensations Administration	\$ 1,178,969	\$ 1,178,969	\$ -
EXPENDITURES:			
General and administration	<u>1,178,969</u>	<u>1,026,593</u>	<u>152,376</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 152,376</u>	<u>\$ (152,376)</u>

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010

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**1. BUDGET AND BUDGETARY ACCOUNTING**

The Commission's budgetary system is its primary control over expenditures and is adopted in accordance with a statutory basis of accounting which is not in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenue is generally recognized when cash is received. Short or long-term borrowings may be used to finance budgetary excess of revenues over expenses. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No 123 of August 17, 2001. Unencumbered appropriations lapse at year end. Amounts required for settling claims and judgments against the Commission, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commission uses the encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure.

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

<b>Federal Grantor/Pass-Trough Grantor/ Program Title or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Transportation</b>		
Passed Through National Highway Traffic		
Safety Administration		
Highway Safety Cluster		
State and Community Highway Safety Programs	20.600	\$ 2,947,529
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	2,445,373
Occupant Protection Incentive Grants	20.602	651,956
Safety Belts Performance Grants	20.609	537,093
State Traffic Information System Improvement Grants	20.610	22,238
Incentive Grant Program to Increase Motorcycle Safety	20.612	147,893
Alcohol Open Container Requirements	20.607	2,745,648
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	3,875,649
Fatality Reporting System	Not Available	59,543
Passed Through Puerto Rico Highways		
Transportation Authority		
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	<u>482,644</u>
Total Federal Awards		<u>\$ 13,915,566</u>

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

NOTES SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

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**1. REPORTING ENTITY**

The accompanying Schedules of Expenditures of Federal and State Awards present the activities of all Federal financial assistance programs of the Commonwealth of Puerto Rico Traffic Safety Commission. Federal financial assistance received directly from Federal agencies as well as Federal financial assistance passed through other agencies is included in the schedule. The City's reporting entity is defined in Note 1 to the Commission's basic financial statements. Because the Schedules of Expenditures of Federal and State Awards present only a selected portion of the operations of the Commission, it is not intended to, and does not, present the financial position or changes in financial position of the Commission.

**2. BASIS OF PRESENTATION**

The accompanying Schedules of Expenditures of Federal and State Awards are presented using the modified accrual basis of accounting which is described in the notes to the Commission's basic financial statements. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A87, Cost Principles for State, Local and Indian Tribal Governments.

**3. SUBRECIPIENTS**

During the fiscal year ended June 30, 2010, the Commission made payments of federal awards to subrecipients totaling \$7,783,000.



**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***

Commonwealth of Puerto Rico  
Traffic Safety Commission  
San Juan, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico Traffic Safety Commission (“the Commission”) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 22, 2011.

Our report disclosed, as discussed in Note 1, 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Commission’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 10-FS-01 to 10-FS-04 to be material weaknesses.

### **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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 10-FS-05.

This report is intended solely for the information and use of the management of the Commission, others within the government of the Commonwealth of Puerto Rico, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Guzmán Torres & Co., P.S.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
February 22, 2011

Stamp # 2583849  
was affixed to  
the original of  
this report.



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

Commonwealth of Puerto Rico  
Traffic Safety Commission  
San Juan Puerto Rico

**Compliance**

We have audited the Commonwealth of Puerto Rico Traffic Safety Commission (“the Commission”) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission’s major federal programs for the year ended June 30, 2010. The Commission’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulation, contracts, and grants applicable to each of its major programs is the responsibility of Commission’s management. Our responsibility is to express an opinion on Commission’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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 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. Our audit does not provide a legal determination of Commission’s compliance with those requirements.

As described in item(s) 10-SA-01 to 10-SA-03 in the accompanying schedule of findings and questioned costs, the Commission did not comply with requirements regarding cash management, activities allowed or unallowed and subrecipient monitoring that are applicable to its major programs *20.600 State and Community Highway Safety Program, 20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, 20.602 Occupant Protection Incentive Grants, 20.605 Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons, 20.607 Alcohol Open Container Requirements, 20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated and 20.609 Safety Belts Performance Grants*.

Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 item 10-SA-04.

### **Internal Control Over Compliance**

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-SA-04 to be a material weaknesses.

This report is intended solely for the information and use of the management of the Commission, others within the government of the Commonwealth of Puerto Rico, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Guzmán Torres & Co., P.S.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
February 22, 2011

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of this report.

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

SCHEDULE OF FINDINGS AND QUESTION COSTS  
YEAR ENDED JUNE 30, 2010

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**SECTION 1 – SUMMARY OF AUDITORS’ REPORT**

1. The type of opinion issued in the financial statements	Unqualified
2. The independent accountants’ report on internal control over financial reporting described:	
a. Significant deficiencies noted considered material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	No
3. Noncompliance considered material to the financial statements was disclosed by the audit	Yes
4. The independent accountants’ report on internal control over compliance with requirements applicable to major Federal awards described:	
a. Significant deficiency noted considered to be a material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	No
5. The opinion expressed in the independent accountants’ report on compliance with requirements applicable to major Federal awards	Qualified
6. The audit disclosed findings to be reported in accordance with Section .510(a) of OMB Circular A-133	Yes
7. The Commission’s major program were:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA No</u>
State and Community Highways Safety Program	20.600
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601
Occupant Protection Incentive Grants	20.602
Safety Incentive to Prevent Operation of Motor Vehicles	20.605
Alcohol Open Container Requirements	20.607
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608
Safety Belts Performance Grants	20.609
8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133	\$432,562
9. Auditee qualified as a low risk auditee under section .530 OMB Circular a-133	No

## **SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS RFEPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **Finding 10-FS-01 (Material Weakness)**

#### *Condition:*

The Commission's accounting department does not prepare monthly financial statements making it difficult for management to make decisions on a timely basis.

#### *Criteria:*

To assist management in the decision making process periodic financial statements and reports should be provided to management. To assist in this the financial reporting and closing process should be documented in writing and should be communicated on a timely basis to all departments and individuals involved in the process.

#### *Cause of condition:*

The financial reporting closing process is informal and not well documented. In addition, roles and responsibilities in the financial closing and reporting process are not communicated on a timely basis to appropriate departments and individuals.

#### *Effect of condition:*

The accounting department was unable to provide management with timely and reliable financial information that assists management in making sound decisions. The following situations, among others, were noted and not detected on a timely basis:

1. Prior year auditor adjustments were not recorded in Commission's accounting records until commencement of current year audit.
2. During the year ACCA did not transferred the cash as per the approved budget. ACCA commenced making deposits to the state bank account during the month of May 2010.
3. ACCA used federal funds to pay expenses related to activities not allowed by federal awards.
4. Reimbursements from federal awards were not reconciled with the related expenditures resulting in unreconciled differences.

These situations could have been detected on a timely basis if closings and reconciliations of accounts were performed on a monthly basis and if the accounting records were maintained using fund accounting.

*Recommendation:*

In order to ensure that all accounting procedures are performed on a timely basis, management should establish policies to document the month and year end procedures that should be followed by the accounting department as well as any other department that provides financial information required for the preparation of financial statements. This could be accomplished by developing a comprehensive checklist that covers all procedures that the Commission determines necessary to be performed on a periodic basis including, but not limited to, month end procedures such as bank reconciliations, and general ledger account analysis, etc.

In addition, the Commission should maintain its accounting records using fund accounting as required by accounting principles generally accepted in the United States of America. Interfund receivables and payables should be maintained for any transaction recorded in one fund that belongs to other fund.

**Finding 10-FS-02 (Material Weakness)**

*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. During the year ended June 30, 2010 expenditures reimbursed with federal awards exceed the related revenues by \$166,289. The special revenue funds shows an accumulated deficiency of \$493,866 which represents excess of expenditures incurred in prior years over the related federal award reimbursement.

During our audit procedures we noted the following:

1. There are no sufficient controls or procedures to assure that federal awards expenditure and the related reimbursements are recorded in the same accounting period. As the result adjustments in the amount of \$884,753 were required to restate prior year financial statements for federal awards expenditures and related reimbursement not recorded in the proper fiscal year.
2. There are no sufficient controls or procedures to assure that a reimbursement for all federal awards expenditures is requested. At the date of our work there are approximately \$290,000 federal awards expenditures for which no reimbursement was requested. Subsequent to our work reimbursements in the amount of \$151,624 were requested from NHTSA. However reimbursements for expenditures incurred in the amount of \$138,391 were never requested and at this time cannot be requested since the grant period expired as represented by federal awards accountant.
3. Significant time passed since the vendor invoice is received and the date the reimbursement is requested. In certain instances this time lapse is more than 6 months.
4. In certain instances the federal award expenditure is recorded in one federal award program while the related reimbursement is recorded in a different federal award program.
5. The records used to accumulate the information to request the reimbursement are Excel spreadsheets prepared by the federal program accountant. These are informal spreadsheets that are not reviewed by anyone and are not reconciled with the Commission's accounting

records. Since these spreadsheets are not reconciled with the accounting records errors could arise and remained undetected.

*Criteria:*

Generally accepted accounting principles require that related revenues and expenses be recorded in the proper accounting period. In addition the Commission should be reimbursed for all expenditures that qualify as allowable activity under federal programs.

*Cause of condition:*

No monthly reconciliations of the revenues and expenditures reimbursed with federal awards were made during the year. As a result errors were not detected on a timely basis.

*Effect of condition:*

The Commission is not be 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.

*Recommendation:*

In order to avoid this situation in the future, controls and procedures related to the process of federal awards expenditures and reimbursements should be strengthened to require timely process 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.

**Finding 10-FS-03 (Material Weakness)**

*Condition:*

The Commission's funds financial statements at June 30, 2010 show an accumulated deficiency in the special revenue fund of \$493,866. This deficit is the result of an excess of accounts payable to suppliers that are payable with the proceeds from federal awards over the related assets available to pay such liability.

*Criteria:*

Since most of the Commission's activities are 100% reimbursed by federal awards, there should not be an accumulated deficit in the special revenue fund.

*Cause of Condition:*

The accounting department is not performing a reconciliation of the federal awards expenditures with the related reimbursement. Therefore expenditures are incurred that are not reimbursed by NHTSA since the reimbursement is never requested.

*Effect of Condition:*

The Commission does not have the resources to pay such deficit. Special grant assignment by ACCA or the Commonwealth of Puerto Rico will be required to pay the deficit.

*Recommendation:*

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. In order to avoid this situation in the future controls and procedures should be strengthened to require timely reconciliations of federal awards expenditures and related reimbursements. Differences should be promptly investigated. If after the analysis management determine that the deficiency is correct, management should identify sources of funds to be used in the payment of this liability.

**Finding 10-FS-04 (Material Weakness)**

*Condition:*

The Commission in certain cases follows the practice to obligate funds prior to receive the funds from NHTSA. During the year funds were obligated over the amount assigned or received from NHTSA. Also we were informed that such practice continued during the next fiscal year and that the amount obligated over the amounts received from NHTSA is about \$600,000.

*Criteria:*

Federal funds should be obligated when available for expending but not before.

*Cause of Condition:*

Federal funds are obligated without obtaining a certification of availability from the federal funds accountant.

*Effect of Condition:*

The Commission is incurring in financial obligation prior to obtaining the funds to finance such obligations. This could result in cash flows deficiencies if the Commission is unable to obtain the funds to finance the amount over obligated.

*Recommendation:*

The Commission should establish procedures to avoid the obligation of funds prior to assignment of the federal funds by NHTSA. This could be achieved by requiring a certification from the federal funds accountant about the availability of funds prior to incurring in the obligation. Contracts with vendors or sub-recipients should not be signed until obtaining this certification.

## **Finding 10-FS-05**

### *Condition:*

During our audit we observed that personnel files are not being kept current and in some instances were incomplete. In certain instances, certification from ASUME, are not included in the files.

### *Criteria:*

Laws and regulations require that personnel files should be kept current and should include all required documentation.

### *Cause of condition:*

Not proper implementation of laws and regulations.

### *Effect of condition:*

By not keeping personnel files current, the Commission is exposed to penalties in case of legal claims.

### *Recommendation:*

Procedures should be implemented to ensure that all personnel files are current and complete in accordance with laws and regulations.

## **SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS**

### **Finding 10-SA-01**

#### *Federal Program:*

20.600 State and Community Safety Highway Program  
20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants  
20.602 Occupant Protection Incentive Grant  
20.605 Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons  
20.607 Alcohol Open Container Requirements  
20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated  
20.609 Safety Belts Performance Grants

#### *Federal Grantor:*

U.S Department of Transportation

#### *Pass Through Entity:*

National Highway Traffic Safety Administration  
Puerto Rico Highways and Transportation Authority

#### *Compliance requirements:*

Cash management

#### *Reporting Requirement:*

Material weakness in internal control over a major Federal program and material non-compliance in relation to a compliance requirement

#### *Condition:*

The Commission lacks the effective procedures to minimize the time between the drawdown of federal funds and the related disbursements. In a sample of 68 items, we noted that in certain cases the time between the drawdown and the related disbursement was more than 30 days.

#### *Criteria:*

Federal regulations require that controls and procedures should exist to minimize the time elapsed between the drawdown and the related disbursements. In cases where the federal awards are on a reimbursement basis the Commission should pay the federal expenditure before requesting reimbursement from the federal agency.

*Cause of Condition:*

By law 33 of the Commonwealth of Puerto Rico, ACCA is the custodian of the Commission's state and federal funds. It takes time between the date the federal funds are received and the payment voucher is sent to ACCA for review and approval for payment and the generation of the check. ACCA payment cycle is on the 15<sup>th</sup> and the end of each month resulting in payment of vouchers not completed until those dates.

*Effect of Condition:*

The Commission is not in compliance with laws and regulations applicable to its major programs.

*Questioned costs:*

Unknown

*Recommendation:*

Management in coordination with ACCA should developed procedures to minimize the time elapsed between the drawdown of federal funds and the related disbursements. One way to achieve this is to make the drawdown after ACCA has reviewed and approved the voucher for payment and is able to generate the check in accordance with ACCA payment cycle.

**Finding 10-SA-02**

*Federal Program:*

- 20.600 State and Community Safety Highway Program
- 20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
- 20.602 Occupant Protection Incentive Grant
- 20.605 Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons
- 20.607 Alcohol Open Container Requirements
- 20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated
- 20.609 Safety Belts Performance Grants

*Federal Grantor:*

U.S Department of Transportation

*Pass Through Entity:*

National Highway Traffic Safety Administration  
Puerto Rico Highways and Transportation Authority

*Compliance requirements:*

Activities allowed or unallowed

*Reporting Requirement:*

Material weakness in internal control over a major Federal program and material non-compliance in relation to a compliance requirement

*Condition:*

During the year ended June 30, 2010 federal funds were used to pay expenses for activities that are not allowed under program laws and regulations.

*Criteria:*

Federal funds can only be used for activities allowed under program laws and regulations. In specifically federal regulation prohibits the use of federal funds to finance other program or activities cost and expenses.

*Cause of Condition:*

Law No 33 requires ACCA to approve and provide state funds to the Commission for the payment of expenses of the Commission's general and administrative expenses not reimbursable under federal awards. Every year the Commission submits to ACCA and ACCA approves a budget for the Commission annual expenses. The budget approved by ACCA for the year ended June 30, 2010 amounted to approximately \$1,179,000. However it was not until May and June 2010 when ACCA deposited \$400,000 of the approved budget in the Commission's operating account. Therefore ACCA paid all the Commission's administrative expense incurred before those months using federal funds received under the Commission's major federal programs.

*Effect of Condition:*

Federal funds are not being used in accordance with program laws and regulations. In addition, the National Highway Traffic Safety Administration could request the Commission to reimburse federal funds not used in accordance with programs laws and regulations.

*Questioned costs:*

\$921,660

*Recommendation:*

The Commission in coordination with ACCA should develop and establish procedures to assure that federal funds are used only for activities allowed under program laws and regulations. The amount of federal funds used improperly should be reimbursed to the federal program as soon as possible.

## **Finding 10-SA-03**

### *Federal Program:*

20.600 State and Community Safety Highway Program  
20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants  
20.602 Occupant Protection Incentive Grant  
20.605 Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons  
20.607 Alcohol Open Container Requirements  
20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated  
20.609 Safety Belts Performance Grants

### *Federal Grantor:*

U.S Department of Transportation

### *Pass Through Entity:*

National Highway Traffic Safety Administration  
Puerto Rico Highways and Transportation Authority

### *Compliance requirements:*

Subrecipient Monitoring

### *Reporting Requirement:*

Material weakness in internal control over a major Federal program and material non-compliance in relation to a compliance requirement.

### *Condition:*

In our test of 22 files of the subrecipient monitoring we noted the following:

1. In all of the cases examined the Commission did not inform the subrecipient in the project contract or in any other document the award's CFDA number and title.
2. In certain cases we noted that the subrecipient submitted the quarterly reports after the required due date and in other cases quarterly reports were not submitted.
3. In all cases the subrecipients did not submit the final report as required by the regulations
4. In all cases in the subrecipient files there was no evidence of Pass-through Entity Impact which an evaluation of the impact of subrecipient activities on the pass-through entity abilities to comply with applicable federal regulations.
5. In certain cases in the subrecipient files there is no evidence of at least one site visit as required by the regulations.
6. In one case for a subrecipient that received more than \$500,000 there is no evidence that the Commission received the subrecipient's single audit report for the applicable fiscal year.

*Criteria:*

OMB Circular A-133 § 400(d)(3) requires that pass-through entities “monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” Good internal control requires that proper documentation be included in each subrecipient file as evidence of the monitoring activities performed.

*Cause of Condition:*

The Commission’s controls and procedures related subrecipient monitoring activities failed to assure that all monitoring activities as required by federal regulations were carried out or documented in subrecipient files as required.

*Effect of Condition:*

The Commission is not in compliance with requirements of federal laws and regulation. Without adequate monitoring of subrecipients there is an increased risk of misuse of federal funds. Without notification of award information there is increased risk for errors at the subrecipient level.

*Question Cost:*

Unknown

*Recommendation:*

Monitoring controls and procedure should be strengthened to ensure compliance with federal laws and regulations related subrecipient monitoring activities. Management should consider to provide seminars to Commission’s monitors and to develop a manual containing all the monitoring activities and documentation.

**Finding 10-SA-04**

*Federal Program:*

- 20.600 State and Community Safety Highway Program
- 20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants
- 20.602 Occupant Protection Incentive Grant
- 20.605 Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons
- 20.607 Alcohol Open Container Requirements
- 20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated
- 20.609 Safety Belts Performance Grants

*Federal Grantor:*

U.S Department of Transportation

*Pass Through Entity:*

National Highway Traffic Safety Administration  
Puerto Rico Highways and Transportation Authority

*Compliance requirements:*

N/A

*Reporting Requirement:*

Material weakness in internal control over a major Federal program

*Condition:*

See Finding 10-FS-01. This finding relates to a material weakness over a major federal program that is required to be reported under OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO  
TRAFFIC SAFETY COMMISSION**

SCHEDULE OF FINDINGS AND QUESTION COSTS  
YEAR ENDED JUNE 30, 2010

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**Finding No 09-02**

*Federal Program:*

20.600 State and Community Safety Highway Program  
20.608 Minimum Penalties for Repeat Offenders for DWI or DUI  
20.607 Alcohol Open Container Requirements  
20.601 Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants

*Federal Grantor:*

U.S Department of Transportation

*Pass-through Entity*

National Highway Traffic Safety Administration

*Compliance Requirement*

Cash management

*Recommendation:*

We recommend management to strengthen its disbursement procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements to the subrecipients. The Commission should consider submitting the payment schedule to ACCA at the same time it submit the voucher to the National Highway Traffic Safety Administration.

*Status of Corrective Action:*

Not implemented. Similar items noted during current year audit. See current year Finding 10-SA-01

**Finding No 09-03**

*Federal Program:*

20.607 Alcohol Open Container Requirements  
20.608 Minimum Penalties for Repeat Offenders for DWI or DUI  
20.600 State and Community Safety Highway Program

*Federal Grantor:*

U.S Department of Transportation

*Pass-through Entity*

National Highway Traffic Safety Administration

*Compliance Requirement*

Subrecipient Monitoring

*Recommendation:*

We recommend management to strengthen its monitoring procedures, including giving specific instruction and training to the Commission's monitors. Also, we recommend management to update the procedures manual since the procedures manual used during the fiscal year 2008-2009 was approved on October 10, 1990.

*Status of Corrective Action:*

Not implemented. Similar items noted during current year audit. See current year Finding number 10-SA-03.