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, 2015

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López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

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

INDEPENDENT AUDITORS' REPORT

To the Executive Director of
Puerto Rico Traffic Safety Commission
(An Executive Agency of the Commonwealth
of Puerto Rico)
San Juan, 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, 2015, 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3544 – Tel. (787) 777-8044 Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion

As of June 30, 2015, the Commission has certain accounts receivable balances from prior years recorded in 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.

Also, as discussed in Notes **2** and **9**, the Commission's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Commission's governmental activities has not been determined.

In addition, the Commission's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

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, 2015, 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 **11,** the National Traffic Safety Administration (NHTSA) issued a request 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 **5** through **14** 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.

Management has omitted historical pension information, required as supplementary information related to new pension standards (GASB Statement No. 68) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard 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. Our opinion on the basic financial statements is not affected by the missing information.

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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016, 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.

López-Vega, CPA, PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
February 10, 2016

Stamp No. 2705500 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

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, 2015. 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, 2015, amounted to $5,289,974 and total liabilities amounted to $5,039,958, at that date.
- Net position at June 30, 2015 amounted to $250,016.
- Net position increased by $259,854, 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 position presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

Government-wide financial statements (Continued)

The statement of activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position 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 **15** to **16** 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 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 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.

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 **17** and **19** of this report.

Also, the reconciliation of the balance sheet of governmental funds to the statement of net position and the reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities can be found on pages **18** and **20**, respectively.

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 **21** through **37** of this report.

Government-wide overall financial analysis

Net position

As described before, net position 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, the assets of the Commission's governmental activities exceeded its liabilities by $250,016 at June 30, 2015, resulting in an increase of $259,584 when compared to the net position (deficit) of $(9,838) as of June 30, 2014. The Commission's net position includes investment in capital assets amounting to $118,400 and an unrestricted net position of $131,616.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A condensed summary of the statement of net position of the governmental activities of the Commission as of June 30, 2015 and 2014 is as follows:

CONDENSED STATEMENTS OF NET POSITION - GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2015 AND 2014

	2015	2014
Assets:		
Current assets	$ 5,171,574	$ 5,242,843
Capital assets, net	118,400	45,205
Total assets	5,289,974	5,288,048
Liabilities:		
Accounts payable and accrued liabilities	4,473,321	4,737,021
Accrued compensated absences and bonus	566,637	560,865
Total liabilities	5,039,958	5,297,886
Net position (deficit)		
Net invested in capital assets	118,400	45,205
Unrestricted (deficit)	131,616	(55,043)
Total net position (deficit)	$ 250,016	$ (9,838)

Total assets increased by $1,926 or 0.04%. This result was mainly the net effect of a decrease on accounts receivable amounting to $87,346 and an increase in net capital assets of $73,195. The largest portion of the Commission's assets are the accounts receivable from federal grants and cash and cash equivalents, which represents 61.67% and 35.80%, respectively, of total assets as of June 30, 2015.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Position (Deficit)

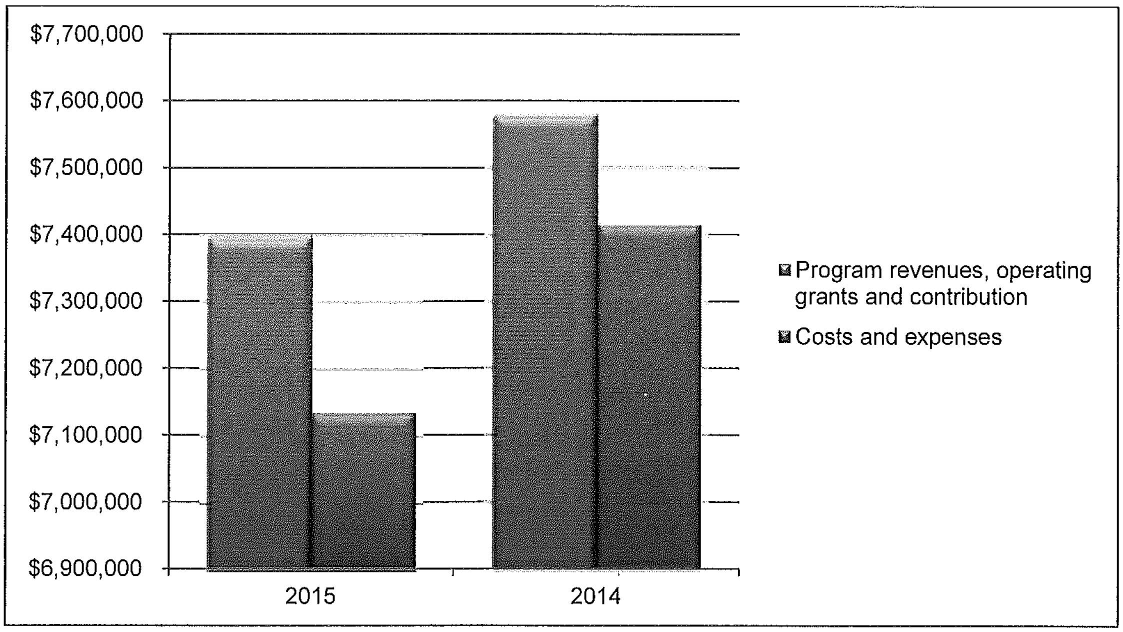
The change in net position of the Commission's governmental activities amounted to $259,854 during the year ended June 30 2015. Program revenues decreased by $184,269 (2.43%), and expenses decreased by $280,825 (3.79%) in comparison with fiscal year 2014. Both decreases are related with the reduction of federal assistance to finance the operations of certain Commission's programs. A summary of the governmental activities during the year ended June 30, 2015, follows:

CONDENSED STATEMENTS OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014	Change
Program Revenues:			
Operating grants and contributions	$ 7,394,627	$ 7,578,896	$ (184,269)
Expenses:			
Planning and administration	1,774,727	1,913,923	(139,196)
Impaired driver	488,075	736,874	(248,799)
Youth impaired driver	528,524	389,098	139,426
Police traffic safety	223,396	395,397	(172,001)
Occupant protection	501,734	288,169	213,565
Community programs	292,525	175,319	117,206
Non-occupant safety	87,278	309,555	(222,277)
Traffic engineering	236,905	147,912	88,993
Paid media	2,076,884	2,546,595	(469,711)
Motorcycle safety	61,670	80,670	(19,000)
Fatality analysis reporting system	49,716	53,816	(4,100)
Traffic records	613,406	272,149	341,257
Distracting driving	199,933	106,121	93,812
Total expenses	7,134,773	7,415,598	(280,825)
Change in net position	259,854	163,298	96,556
Net position (deficit) at beginning of year,	(9,838)	(173,136)	163,298
Net position (deficit) at end of year	$ 250,016	$ (9,838)	$ 259,854

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table shows the Commission's program revenues, operating grants and contributions for the fiscal years ended June 30, 2015 and 2014. Also, shows the costs and expenses incurred for those fiscal years.

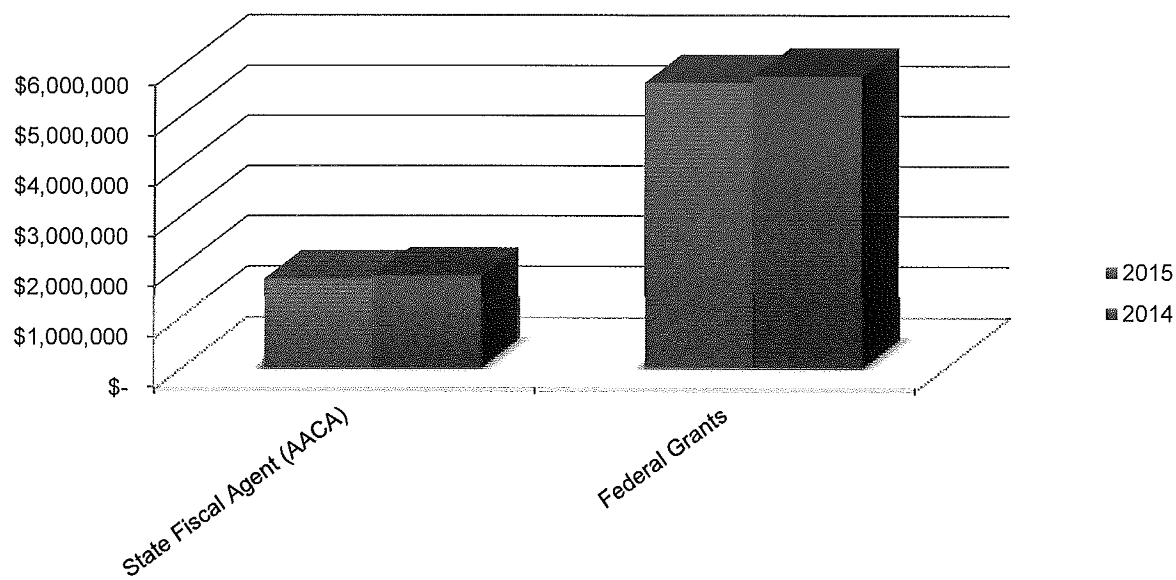


Program revenues and operating grants consist of state funds in the amount of $1,713,300 and federal awards received from the NHTSA in the amount of $5,653,453 and other income amounting to $27,874. All of the Commission's programs are financed with federal awards received from NHTSA.

The following chart presents revenues comparison by program of the Commission activities for the years ended June 30, 2015 and 2014:

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

PUERTO RICO TRAFFIC SAFETY COMMISSION
Program Revenues, Grants and Contributions
For the Years Ended June 30, 2015 and 2014

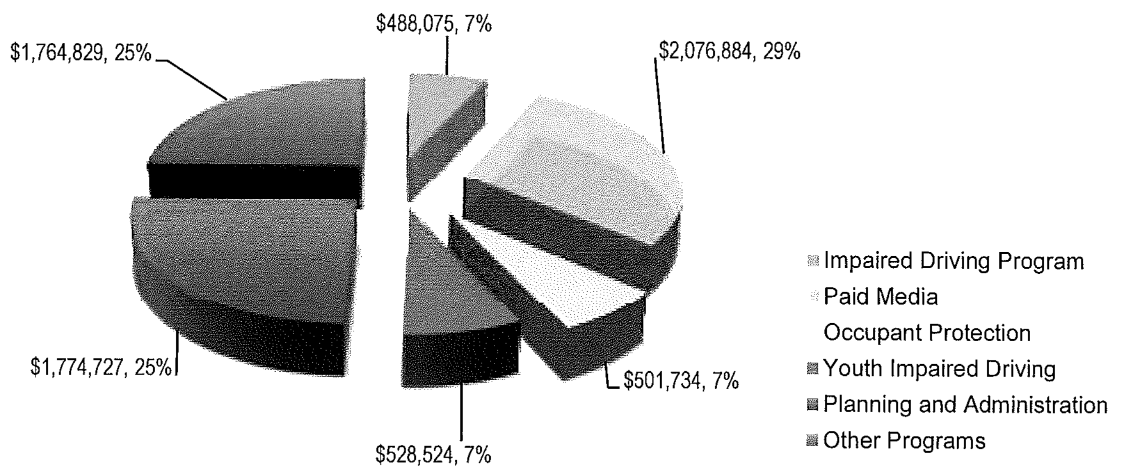


Planning and administration expenses consist principally of personnel compensation and related benefits and are financed principally with the state funds received from AACA and, with certain limitation, with federal awards received from NHTSA. All other programs are financed with funds received from 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following chart presents expenses by program of the Commission for the year ended June 30, 2015:

PUERTO RICO TRAFFIC SAFETY COMMISSION
Costs and Expenses
For the Year Ended June 30, 2015



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 2015, the Commission's governmental funds reported combined ending fund balance amounting to $698,253 at the close of current year, which represents an increase of $192,431 compared with prior fiscal year 2014.

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 $1,055,336.

Financial Analysis of the Commission's Funds (Continued)

The fund balance of the Commission's general fund increased by $186,040. Total General Fund revenues for the fiscal year 2015 amounted to $1,741,174, while total General Fund expenditures for the fiscal year 2015 amounted to $1,555,134.

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, 2015, the AACA approved a budget amounting to $1,713,300, 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 accumulated depreciation) as of June 30, 2015 amounted to $118,400. Additional information on the commission's capital assets can be found in the Note **5** of the basic financial statements on page **29** of this report.

Long-term Debt

Total accrued compensated absences and Christmas bonus owed by Commission's amounted to $566,637 as of June 30, 2015. Additional information on the Commission's long-term liabilities can be found in the Note **8** of the basic financial statements on page **30** of this report.

Adoption of GASB Statement No. 68

The new GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27, was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Commission's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Commission could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Commission's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

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 Department; P.O. Box 41289 Minillas Station, Santurce, Puerto Rico 00940

	Governmental Activities
Assets	
Cash and cash equivalents	$ 1,893,825
Accounts receivable:	
Federal grants	3,262,088
Other	15,661
Capital assets net of accumulated depreciation	118,400
Total assets	$ 5,289,974
Liabilities and net position	
Liabilities	
Funds in transit to cover reported expenses	1,579,910
Accounts payable and accrued liabilities	2,499,010
Due to AACA	394,401
Long-term liabilities:	
Due within one year	68,949
Due in more than one year	497,688
Total liabilities	5,039,958
Net position	
Net investment in capital assets	118,400
Unrestricted	131,616
Total net position	$ 250,016

See accompanying notes to basic financial statements

Functions / Programs	Costs and expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Governmental Activities
Programs direct Costs and expenses:			
Planning and administration	$ 1,774,727	$ 2,027,463	$ 252,736
Impaired driver program	488,075	487,907	(168)
Youth impaired driver	528,524	528,524	-
Police traffic safety	223,396	223,396	-
Occupant protection	501,734	501,591	(143)
Community programs	292,525	291,630	(895)
Non-occupant safety	87,278	96,299	9,021
Traffic engineering	236,905	236,737	(168)
Paid media	2,076,884	2,076,884	-
Motorcycle safety	61,670	61,502	(168)
Fatality analysis reporting system	49,716	49,548	(168)
Traffic record	613,406	613,238	(168)
Distracting driving	199,933	199,908	(25)
Total governmental activities	$ 7,134,773	$ 7,394,627	
Change in net position			259,854
Net position (deficit) at beginning of year			(9,838)
Net position (deficit) at end of year			$ 250,016

See accompanying notes to basic financial statements.

	General Fund	Special Revenue Fund	Total
Assets			
Cash and cash equivalents	$ 1,893,825	$ -	$ 1,893,825
Accounts receivable:			
Federal grants	-	3,262,088	3,262,088
Other	1,433	14,228	15,661
Total assets	1,895,258	3,276,316	5,171,574
Liabilities and fund balance			
Liabilities			
Funds in-transit to cover reported expenditures	-	1,579,910	1,579,910
Accounts payable and accrued liabilities	448,552	2,050,458	2,499,010
Due to AACA	391,370	3,031	394,401
Total liabilities	839,922	3,633,399	4,473,321
Fund balances (deficit)			
Unassigned	-	(357,083)	(357,083)
Assigned	1,055,336	-	1,055,336
Total fund balances (deficit)	1,055,336	(357,083)	698,253
Total liabilities and fund balances (deficit)	$ 1,895,258	$ 3,276,316	$ 5,171,574

See accompanying notes to basic financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Total fund balances of governmental funds	$ 698,253
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	118,400
Liability of accrued compensated absences is not to be paid with current financial resources and therefore is not reported in the fund financial statements	(552,987)
Liability of Christmas bonus is not to be paid with current financial Resources and, therefore, is not reported in the fund financial statements	(13,650)
Net position of governmental activities	$ 250,016

See accompanying notes to basic financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT) GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue Fund	Total
REVENUES:			
Annual appropriations from the			
State fiscal agent	$ 1,713,300	$ -	$ 1,713,300
Federal grants	-	5,653,453	5,653,453
Other	27,874	-	27,874
Total revenues	1,741,174	5,653,453	7,394,627
EXPENDITURES:			
Planning and administration	1,555,134	287,016	1,842,150
Impaired driver	-	488,075	488,075
Youth impaired driver	-	528,524	528,524
Police traffic safety	-	223,396	223,396
Occupant protection	-	501,734	501,734
Community programs	-	292,525	292,525
Non-occupant safety	-	87,278	87,278
Traffic engineering	-	236,905	236,905
Paid media	-	2,076,884	2,076,884
Motorcycle safety	-	61,670	61,670
Fatality analysis reporting system	-	49,716	49,716
Traffic record	-	613,406	613,406
Distracting driving	-	199,933	199,933
	1,555,134	5,647,062	7,202,196
NET CHANGE IN FUND BALANCE	186,040	6,391	192,431
FUND BALANCE (DEFICIT) AT BEGINNING	869,296	(363,474)	505,822
FUND BALANCE (DEFICIT) AT END OF YEAR	$ 1,055,336	$ (357,083)	$ 698,253

See accompanying notes to basic financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Net change in fund balance-total governmental funds	$ 192,431
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 capital outlays exceeded depreciation expense for the period.	73,195
Increase in accrued compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.	(6,122)
Decrease in accrued Christmas bonus reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.	350
Change in net position of governmental activities	$ 259,854

See accompanying notes to basic financial statements

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 to 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, 2015.

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. **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.

c. **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 services traditionally provided by a government and that are not accounted for in any other fund.

Special revenue fund – This fund accounts 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.

Note 2 – Summary of significant accounting policies (Continued)

d. 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, while available means collectible within the current period or in a soon enough period after the balance sheet date to pay current budget period expenditures. Expenditures are recorded when the related fund liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

e. 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

f. 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** – it consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt that is attributable to the acquisition, construction or improvements of those assets.

2) **Restricted net position** – results when constraints placed on net position's 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** - it consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

Note 2 – Summary of significant accounting policies (Continued)

f. Net position (Continued)

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.

g. 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.

h. Cash with fiscal agent

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

i. 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.

j. 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.

Note 2 – Summary of significant accounting policies (Continued)

j. Deferred outflows/inflows of resources (Continued)

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 three (3) 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. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

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.

3. **Deferred outflows/inflows of resources related to pensions -** Amounts reported for changes in calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the Commission's contributions and proportionate share contributions; and e) Commission's contributions subsequent to the measurement date.

k. Capital assets

All buildings and infrastructure occupied by the Commission are recorded as capital assets in the accounting records of other Agencies of the Commonwealth of Puerto Rico and of other private entities. 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 government-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.

Note 2 – Summary of significant accounting policies (Continued)

k. Capital assets (Continued)

Also, the Commission periodically reviews long-lived 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.

l. 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.

m. Accounting for pension costs

The Commission shall adopted the provisions of GASBS No. 68, Accounting and Reporting for Pensions – an amendment of GASBS No. 27, and GASBS No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which amended GASBS No.68.

The Commission accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements shall be equal to the Commission's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date.

In addition, if the Commission's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

For the purpose of applying the requirements of GASBS Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Commission participate. The Commission is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

Note 2 – Summary of significant accounting policies (Continued)

m. Accounting for pension costs (Continued)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Commission's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, the management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68.

n. 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.

o. 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, Capital Projects Fund, Debt Service Fund, And Permanent Fund are clarified by the provisions in this Statement.

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

Note 2 – Summary of significant accounting policies (Continued)

o. Fund Balance Reporting (Continued)

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

Non-spendable fund balance - such as balance is associated with inventories, prepaids 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 Commission's highest level of decision making authority.

Assigned fund balance – this classification in intended to be used by the government for specific purposes that 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 no 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, 2015 consist of Commission's state and federal awards funds which are deposited in commercial banks and held in custody by AACA in accordance with the requirements of Act No. 33 of the Commonwealth of Puerto Rico, as amended.

Note 5 – Capital Assets

Capital assets' activity of the Commission for fiscal year ended June 30, 2015 was as follows:

	Balance as of July 1, 2014	Additions	Retirements	Balance as of June 30, 2015
Capital assets being, depreciated:				
Equipment	$ 354,518	$ 47,922	$ -	$ 402,440
Vehicles	120,708	55,680	(57,064)	119,324
Total capital assets being, depreciated	475,226	103,602	(57,064)	521,764
Less accumulated depreciation:				
Equipment	(309,313)	(21,529)	-	(330,842)
Vehicles	(120,708)	(8,878)	57,064	(72,522)
Total accumulated depreciation	(430,021)	(30,407)	57,064	(403,364)
Capital assets, net of accumulated depreciation	$ 45,205	$ 73,195	$ -	$ 118,400

Depreciation expense amounting to $30,407 was charged to the planning and administrative expense function on the Statement of Activities for the year ended June 30, 2015.

The Commission follows the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, an amendment of GASB Statement No. 34. This statement establishes guidance for accounting and reporting for impairment of capital assets and insurance recoveries. The Commission did not recognize any impairment loss during the fiscal year ended June 30, 2015.

Note 6 – Interfund Receivable/Payable

Interfund receivable/payable at June 30, 2015 consists of advances made by the General Fund to the Special Revenue Fund for the payment of program expenditures. The Special Revenue Fund has reimbursed most of the advances received from the general fund after June 30, 2015.

Note 7 – Due to AACA

The Commission has an account payable of $394,401 with the AACA. This represents amounts provided, with a requirement for repayment, to cover certain expenses/expenditures in excess of related revenue or grant.

Note 8 – Long-term liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2015 was as follows:

	Balance as of June 30, 2014	Net Change	Balance as of June 30, 2015	Due within one year
Accrued vacations and sick leave	$ 546,865	$ 6,122	$ 552,987	$ 55,299
Christmas Bonus	14,000	(350)	13,650	13,650
	$ 560,865	$ 5,772	$ 566,637	$ 68,949

Note 9 – Pension plan benefits

General Information about the Pension Plan

As of June 30, 2015, regular employees of the Commission contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Note 9 – Pension plan benefits (Continued)

General Information about the Pension Plan (Continued)

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is $500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to $208,487.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Commission's AUC for the fiscal year 2014-15, amounted to $51,364.

Note 9 – Pension plan benefits (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As stated in the provisions of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Commission and as Required Supplementary Information (RSI).

However, the ESR has not provided to the Commission the required audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Commission's governmental activities cannot be determined at this time.

Note 10 – Postemployment benefits

In addition to the pension benefits described in Note 9, the Commission is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Commission is required to finance costs related to the application of certain laws issued by the Commonwealth Government. Those laws granted increases in pensions and other benefits to retired employees of the Commission such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 eliminated all special laws benefits to future retirees. For the year ended June 30, 2015, the cost related to these post-employment benefits amounted to $23,882.

Note 11 – Contingencies

Litigation and claims

The 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 has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants.

Note 11 – Contingencies (Continued)

Litigation and claims (Continued)

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.

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 compliance 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 questioned costs assessed by the NHTSA amounted to $5,915,927.

Based on the above, on June 4, 2014, the US Department of Transportation (USDT) issued a formal request to the CPR and the Commission for 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 deriving 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 request 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 $357,083, which will be covered with future annual appropriations of the general fund, if necessary.

Note 12 – 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 option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2015 amounted to approximately $23,923.

Note 13 – Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2015:

- **GASB Statement No. 72, Fair Value Measurement and Application:** The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value applications guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concept Statements No. 6, Measurement Elements of Financial Statements, and other relevant literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

- **GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68:** The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement established requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

Note 13 – Future adoption of accounting pronouncements (Continued)

- **GASB No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans:** The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.

  It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

- **GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about the financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and Statement 57, OPEB Measurements by Agent Employers and Agent Multi-Employers Plans, for OPEB. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

- **GASB No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments:** The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy consists of the sources of accounting principles used to prepare the financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the authoritative of GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

Note 13 – Future adoption of accounting pronouncements (Continued)

- **GASB No. 77, Tax Abatement Disclosures:** Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bonds analysts, and others with information they need to evaluate the financial health of governments., makes decisions, and assess accountability. Accordingly, financial statement users need information about certain limitations on government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

  For financial reporting purposes, this Statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

  This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

  Also, tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated.

  The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015.

The impact of the implementation of these pronouncements on the Commission's financial statements, if any, has not yet been determined.

Note 14 – Subsequent events

Subsequent events were evaluated through February 10, 2016, 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.

Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working Group proposes the implementation of a Control Board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the Control Board, have been submitted to the Commonwealth Legislature for review and final approval.

Application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its Instrumentalities

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget. During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

Federal Grantor/Pass-Through Grantor And Program or Cluster	Federal CFDA Number	Federal Expenditures
US Department of Transportation		
National Highway Traffic Safety Administration Highway Safety Cluster		
State and Community Highway Safety Program	20.600	$ 2,384,405
Alcohol Traffic Safety and Drink Driving Countermeasures Incentive Grant	20.601	163,923
Occupant Protection Incentive Grants	20.602	36,300
Fatality Analysis Reporting System	20.614	49,716
State Traffic Information System Improvement Grants	20.610	613,406
Alcohol Open Container Requirements	20.607	804,116
National Priority Safety Program - Section 405b Occupant Protection Grant	20.616	270,248
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	1,324,948
		$ 5,647,062

The accompanying notes are an integral part of this schedule.

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, 2015. 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, 2015, the Commission made payments of federal awards to sub-recipients in the amount of $2,695,334.

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

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*

To the Executive Director of
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, 2015 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 10, 2016.

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 **2015-01** and **2015-02** 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 February 10, 2016.

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.

López-Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC
San Juan, Puerto Rico
February 10, 2016

Stamp No. 2705501 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

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

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

To the Executive Director of
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, 2015. 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 Standa*rds, 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, 2015.

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 **2015-03,** and **2015-04**. 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 **2015-01** and **2015-02** 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 **2015-03** and **2015-04** 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.

López-Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 10, 2016

Stamp No. 2705502 of the
Puerto Rico Society of Certified
Public Accountants was affixed
to the record copy of this report.

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 **2015-03** and **2015-04**). These instances of noncompliance are also considered to be significant deficiencies. In addition, two (2) material weaknesses were noted (reported as items **2015-01** and **2015-02**).

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:

CFDA Numbers(s)	Name of Federal Program or Cluster
20.600	State and Community Highway Safety Program
20.607	Alcohol Open Container Requirements
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated
20.610	State Traffic Information System Improvement Grants

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.

Section II – Financial Statement Findings

Finding Reference: 2015-01 (MW)

Statement of 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, 2015 (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 (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.

Section II – Financial Statement Findings

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 internal control structure, 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.

Management's Response: Management agrees.

Section II – Financial Statement Findings (Continued)

Finding Reference: 2015-02 (MW)

Statement of 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 $357,083 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.

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.

Section II – Financial Statement Findings (Continued)

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 2015, all federal awards and related reimbursement requests were recorded in the corresponding federal program and related grant award year.

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference: **2015-03**

Requirement: **Cash Management**

Federal Program: **Highway Traffic Safety Cluster**

Statement of Condition:

To test compliance with Cash Management requirement, we selected a sample of 15 transactions from the federal reimbursements vouchers submitted during the fiscal year. We examined the supporting documentation of all the disbursements included in each transaction to verify that the costs for which reimbursement was requested were paid prior to the date of the reimbursement or that the Commission minimize the time elapsing between the transfer of funds and their disbursement, as required.

A total of 42 disbursements were selected and examined from these vouchers. Thirty four (34) were based on the reimbursement method and eight (8) were based on the advance method. Based on the procedures performed and the results obtained, we concluded that CST complied with all requirements needed on those disbursements based on the reimbursement method. However from the eight (8) disbursements based on the advance method, three (3) of them did not comply with the advance method requirement that states that the entity must follow procedures to minimize the time elapsing between the transfer of funds from the U.S Treasury and their corresponding disbursement.

The detail of transactions is as follows:

Check Number	Check Date	Amount	Deposit Date	Days Elapsed
15719	3/06/2015	$65,204.10	2/12/2015	22
15724	3/06/2015	$13,646.05	2/12/2015	22
15756	5/28/2015	$19,860.37	5/11/2015	17

Criteria:

31 CFR 205.12 establishes that the reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after the State has already paid out the funds for Federal assistance program purposes.

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

31 CFR Section 205.20 establishes that states must use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns are auditable and accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

31 CFR Section 205.33 establishes that states must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

23 CFR 1200.23 establishes that each State shall submit official vouchers for total expenses incurred to the Approving Official. Copies of the project agreement(s) and supporting documentation for the vouchers, and any amendments there to shall be made available for review by the Approving Official upon request.

23 CFR 1200.23 (b) *"Submission requirements"* establishes that at a minimum, vouchers shall be submitted to the Approving Official on a quarterly basis, no later than 15 working days after the end of each quarter, except that where a State receives funds by electronic transfer at an annualized rate of one million dollars or more, vouchers shall be submitted on a monthly basis, no later than 15 working days after the end of each month. Failure to meet these deadlines may result in delayed reimbursement.

Effect:

The continued occurrence of these conditions may result in the following:

a) Due to the significant amount of federal funds received, the Commission could be exposed to significant administrative sanctions by the grantor, including the assessment of interest cost on funds that were not disbursed within the required time;

b) The program funds may be suspended;

c) The Commission may lose the ability to request reimbursement of federal funds for programs expenditures paid for with state funds; and

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

d) The Federal Agencies may question the ability of the Commission to manage federal awards in compliance with Acts, regulations, and provisions of contracts and grant agreements.

Questioned costs:

None

Recommendation:

We recommend the Commission to establish adequate procedures and controls, in order to comply with cash management requirement.

The Commission's management, in coordination with AACA, should develop 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 AACA has reviewed and approved the voucher for payment and is able to generate the check in accordance with AACA payment cycle.

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.

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

Finding Reference: **2015-04**

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 three (3) cases, the required onsite visit was not performed.
- In three (3) cases, the required quarterly reports were submitted after the due date.

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 procedures, including giving specific instructions and trainings to the Commission's monitors.

Questioned Costs - None.

Management Response - The Commission agrees with the finding.

Finding Reference: 2014-01

Finding Type: Financial Reporting

Statement of 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 Special Revenue Fund for the year ended 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.

Management's Response:

Management agrees.

Status: Still prevails

Finding Reference: 2014-02

Finding Type: Financial Reporting

Statement of 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 year over the related federal award reimbursement.

Management's Response:

During the fiscal year 2015, 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

Finding Reference: **2014-03**

Finding Type: **Federal Awards**

Type of Compliance: **Sub-recipient Monitoring**

Statement of 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