

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS**

**INDEPENDENT AUDITORS' REPORT AND  
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENT  
AND SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2018**

**COMMONWEALTH OF PUERTO RICO**  
**DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of the  
Commonwealth of Puerto Rico  
Department of Transportation and Public Works:

### **Report on the Financial Statement**

We have audited the accompanying statement of cash receipts and disbursement activities of the Commonwealth of Puerto Rico Department of Transportation and Public Works (the "DTOP") as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the DTOP's financial statement 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 the cash basis of accounting described in Note 3; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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: the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursement activities of DTOP for the year ended June 30, 2018, in accordance with the basis of accounting described in Note 3.

## **Other Matters**

### *Basis of Accounting*

We draw attention to Note 3 of the financial statement that describes the basis of accounting. The financial statement is prepared on the basis of cash receipts and disbursement activities, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### *Going Concern*

The DTOP significantly depends on appropriations from the Commonwealth. As of June 30, 2018, the Commonwealth faces significant budgetary risk and uncertainties, including liquidity risk, which is the risk of not having sufficient liquidity or financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth provide to DTOP could be affected in the near future.

## **Other Information**

Our audit was conducted for the purpose of forming an opinion on the statement of cash receipts and disbursement activities that comprise the DTOP's financial statement. The accompanying Schedule of Expenditures of Federal Awards included on page 19, is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards, and is not a required part of the Statement. 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 statement of cash receipts and disbursements. The information has been subjected to the auditing procedures applied in the audit of the statement of cash receipts and disbursement activities and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of cash receipts and disbursement activities 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 financial statement as a whole, in conformity with the basis of accounting described in Note 3.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2019, on our consideration of the DTOP’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide 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 DTOP’s internal control over financial reporting and compliance.



Juan Rivera, CPA  
Toa Baja, Puerto Rico

May 07, 2019

Certified Public Accountants (Puerto Rico)  
License **No. 2214** expires December 1, 2021

Note: The Stamp No. O2764373  
Document was affixed to the original

## OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

As management of the Commonwealth of Puerto Rico Department of Transportation and Public Works (DTOP, by its Spanish an acronym), we offer readers of the annual financial report, our discussion and analysis of DTOP’s financial performance during the fiscal year ended June 30, 2018. The management discussion and analysis is designed to assist the reader in understanding DTOP’s operations and should be read in conjunction with the Schedule of Cash Receipts and Disbursement Activities, which follows this section.

The financial report consists of two parts: management’s discussion and analysis (this section), and the Schedule of Cash Receipts and Disbursement Activities including notes to the financial statement.

### TOTAL RECEIPTS AND TOTAL DISBURSEMENTS COMPARISON

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Receipts	\$ 151,170,801	\$ 99,539,174	\$ 51,631,627
Disbursements	<u>188,331,312</u>	<u>105,146,182</u>	<u>83,185,130</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>\$ (37,160,510)</u>	<u>\$ (5,607,008)</u>	<u>\$ (31,553,502)</u>

The DTOP annual disbursements exceeded its receipts by approximately \$31.6 million when compared with fiscal year 2017. This deficiency of receipts over disbursements is mainly due to difference in timing of recognition of receipts and disbursements under the cash method of accounting. For example, some State Special Resolutions and Other Revenue Funds received the full income for the three-year appropriation during a fiscal year; however, expenditures will be incurred along the three-fiscal year period of appropriation lifetime.

For the year ended June 30, 2018 approximately 98% of the total receipts came from local operating grants and contributions and 2% from federal financial sources. DTOP did not receive funds for capital projects development and improvement of the Puerto Rico transportation system for this fiscal period.

The Schedule of Cash Receipts and Disbursement Activities presents the cash receipts and disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions recorded through budgetary appropriations of the DTOP.

The report also includes notes to the Schedule of Cash Receipts and Disbursement Activities section that explains some of the information in the schedule of cash receipts and disbursement activities and provides more detailed data.

DTOP uses cash basis of accounting to account for all programs administered. Under this method, revenue is recognized as cash when received or when funds are transferred-in and expenditures are recognized when funds are disbursed or transferred-out. Any surplus or deficiency observed during a particular budgetary year results from a time difference of recording transactions of using cash basis approach. Besides bookkeeping to the Treasury Department is usually held in agencies based on the award or appropriation lasting period and amount to obtain real balances of fund use. Therefore, the schedule of cash receipts and disbursement activities is not intended to present DTOP's results of operations in accordance with accounting principles generally accepted in the United States of America.

#### FINANCIAL HIGHLIGHTS

DTOP receives state funds and federal awards to finance its operations and to carry out certain programs and activities as follows:

**STATE FUNDS** - State funds basically consist of the Government of Puerto Rico's general fund appropriations granted on annual basis after the approval of an operating budget, and non-recurrent special fund approved through resolutions. In addition, some internal revenue funds are maintained and supported through the collection of fees, charges, stamps or levies.

**FEDERAL AWARDS** - Federal awards are received from different Federal Agencies and are restricted for specific purposes. During the year ended June 30, 2018, DTOP received federal awards from:

- **PR SAFETY COMMISSION.** As a sub recipient of the PR Safety Commission, which is the recipient entity awarded from the Federal Highway Administration, DTOP was granted with \$701,763 to collect and analyze data of traffic collisions, from which only \$330,809 is an additional award for fiscal year 2018, since prior year awards are carried forward for management during fiscal year 2018. Therefore, receipts collected belonged to open awards during fiscal year 2016, including both current and prior year grants. There were no expenditures reported as of June 30, 2018.
- **US Federal Emergency and Management Administration (FEMA).** DTOP received awards from the Disaster Public Assistance Program to repair and mitigate damages in highways, bridges, and roads or for capital improvements. These awards remain open until the public work is completed. Grants approved are in the amount of \$396,018,866 which had a balance of \$346,979,151. New awards granted to DTOP as of June 30, 2018 amounted \$389,421,442.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

DTOP's economic factors must be analyzed as a component of the Commonwealth of Puerto Rico (the Commonwealth). Although Puerto Rico's economy is closely linked to the United States economy, in recent fiscal years the performance of the Puerto Rico economy has not been consistent with the economic trends of the United States economy.

DTOP budget for the fiscal year 2018 amounts \$151,937,761, detailed as follows:

- General Fund amounted \$107,307,761, equivalent to 70.6%.
- State Special Resolutions and Other Income sources amounted \$44,299,000, equivalent to 29.2%.
- Federal Funds amounted \$331,000 equivalent to 0.2%.

The Commonwealth is currently experiencing a severe fiscal and liquidity crisis while it faces fiscal and economic challenges that, either individually or in the aggregate, could adversely affect their ability to pay debt services and other obligations when due. The Commonwealth is currently dealing and implementing alternative plans and strategies that could affect the creditor's right to collect principal and interest as agreed. In addition, austerity and reduction measures in the use of fiscal resources of the Commonwealth adversely and materially affect the financial position of its affiliate entities, such as DTOP.

Some extraordinary accomplishments during fiscal year 2018, along the everyday responsibilities of managing and attending clientele related to the CESCO operations, include:

- Implementation of the Job System to request service and keep track of the service provide.
- Re-establish connection with Guayama Regional and Central Offices in the Minillas Center.
- Implementation of technical support and configuration with remote desktop connection to the Regional office and CESCO's.
- Implementation of the Office of Information Systems as a technical service center for the DTOP offices.
- Implementation of the system to get real ID's and licenses in the CESCO's of Bayamón and Caguas, and the beginning of the implementation of the real ID's service to Fajardo and Mayagüez.
- Restructuring the CESCO's to maximize service in a single station.
- Implementation of the first phase of the Project CESCO Digital.
- Manage to get the Federal Agency PHMSA to revise its determination to the infrastructure damage prevention program and move from unsatisfactory to satisfactory.
- The creation of the Stakeholders Advisory Committee to ensure that the interested parties in the affective management of excavation projects are heard.
- Achieved the allocation of \$80 million to fix the condition of the roads.



- Assigned new areas to the officers to know where the best productions are made.
- Vehicle and motorcycle fleet inventory.
- Updated the fine system and provided maintenance to the electronic equipment.
- We joined forces with the Puerto Rico police after hurricane Maria giving support at the traffic lights for four months.
- Moved the COT offices to the Minillas Government Center.
- Achieved communication with the team of Softek to upload the electronic fine to the David+ system.

#### FINANCIAL MANAGEMENT CONTACT INFORMATION

If you have any question or need additional financial information, please contact:

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COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES  
JUNE 30, 2018

Funds	State Funds		Federal Funds		Excess (Deficiency)
	Receipts	Disbursement	Receipts	Disbursement	
General Budget	107,307,761	105,810,194	-	-	1,497,567
<b>Federal Awards:</b>					
<i>Pass Trought Funds</i>					
FEMA Disaster Public Assistance	-	-	1,900,000	45,354,796	(43,454,796)
FEMA Disaster Public Assistance State Matching Funds	15,749,542	-	-	-	15,749,542
<b>FHA PR Transit Security Comission</b>					
Analysis & Data Collection of Traffic Crash Grant	-	-	195,689	458,469	(262,780)
<i>Direct Funding of US DOT Pipeline Safety Grant Program</i>					
One call Damage Prevention Program	-	-	199,755	-	199,755
<b>State Special Resolution:</b>					
Special Assigments	2,113,202	2,320,000	-	-	(206,798)
Special State Fund	24,293,108	34,438,924	-	-	(10,145,816)
Other Revenue	11,745	2,347	-	-	9,398
Capital Improvement Fund	-	-	-	-	-
Total	<u>149,475,358</u>	<u>142,571,465</u>	<u>2,295,444</u>	<u>45,813,265</u>	<u>(36,613,928)</u>
Total Superavit State Fund					<u>6,903,893</u>
Total Deficiency Federal Fund					<u>(43,517,821)</u>

The accompanying notes are integral part of these financial statements.

## 1. ORGANIZATION

The Commonwealth of Puerto Rico Department of Transportation and Public Works of the Commonwealth of Puerto Rico (DTOP, by its Spanish acronym) was created by the Constitution of Puerto Rico, Article IV, Section 6. DTOP is the central government agency in charge of developing and maintaining an integral, efficient and safe transportation system, and providing for its improvement and growing to supply the individual and collective needs have the communities and citizens while promoting the business activity. DTOP is organized into four bureaus:

- Public Works Bureau - which has the responsibility to build, improve, renew and give maintenance to highways, roads, bridges, sidewalks and pedestrian path and bridges, and traffic lights and signs, maintain green areas ornate and organize traffic routes, among other works. This bureau provides island-wide services through seven regional offices.
- Community Development Bureau - which provide public works to community with special infrastructure needs.
- Driver Bureau - which provide services to the drivers for obtaining driver licenses and vehicle licenses and permits island-wide through 16 regional offices.
- Urban Development Bureau, which provides the art works and landscaping as part of the renewal and new construction of public works in urban areas.

## 2. GOING CONCERN

The DTOP significantly depends on appropriations from the Commonwealth. As of June 30, 2017, the Commonwealth faces significant budgetary risk and uncertainties, including liquidity risk, which is the risk of not having sufficient liquidity or financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth provide to DTOP could be affected in the near future.

In recognition of the seriousness of the financial difficulties faced by the Commonwealth and its constituent authorities, the United States government enacted PROMESA. PROMESA creates a structure for exercising federal oversight over the fiscal affairs of the territories of the United States and establishes an Oversight Board with broad powers of budgetary and financial control over Puerto Rico. PROMESA also creates procedures (in Titles III and VI of PROMESA) for restructuring debts accumulated by the government of Puerto Rico and its instrumentalities, and potentially for debts of other territories

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Financial Reporting Entity - DTOP is for financial reporting purposes part of the Commonwealth of Puerto Rico. The Department of the Treasury of the Commonwealth of Puerto Rico serves as trustee of the state and federal funds granted to DTOP. As the trustee, The Department of Treasury keeps DTOP's accounting records through PRIFAS and provides on line access to the accounting data of receipts and disbursements for reporting purposes.
- b. Basis of Presentation - Information obtained from PRIFAS of receipts and disbursement on cash basis is used in these financial statements, as a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received or transferred-in and expenditures are recorded when disbursement is incurred or transferred-out. DTOP only accounted for cash receipts and cash disbursements accounts and no balance sheet accounts are maintained or reported.
- c. Statutory (Budgetary) Accounting and Budgetary Control - Formal budgetary accounting is employed as management control for all DTOP's programs. Annual operating budgets are adopted each fiscal year by the approval of the Puerto Rico Legislature, which could be amended as needed during the fiscal year. All unencumbered budget appropriations of local funds lapse three years after the end of each fiscal year. Federal grant funds can be carried over its original term, according to the rule, norms and conditions promulgated on the Code of Federal Regulations of the of the grant award, type, purpose and program.

The Schedule of Cash Receipts and Disbursement activities is summarized by fund type. However, PRIFAS provides a very detailed level of information including program and category and classification of the receipt or expenses.

- d. Compensated absences – the Commonwealth vacation and sick leave policy is applicable to DTOP, providing for the accumulation of 2.5 days per month for vacation leave and 1.5 per month for sick leave. Employees are fully vested for the use of their leave time accrued from the first day of work and are eligible to accrue up to 60 days for vacation leave and up to 90 days for sick leave. Upon retirement date, an employee receives the payment of any used leave at the current rate and any remaining balance up to maximum leaves accumulation is payable at the employee termination date.

On February 4, 2017, Act No. 8-2017 was approved, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico," which establishes the Government as Sole Employer. Through it, it was established that the new employee will have the right to accumulate vacation leave at a rate of two (2) days for each month of service. With regard to sick leave, the new employee will have the right to accumulate sick leave at the rate of one (1) day for each month of service. This Law established that employees who enjoy different benefits under this Act will continue to do so.

Also, on April 29, 2017, Act No. 26-2017, known as the "Law of Compliance with the Fiscal Plan" was approved, which establishes, in Chapter 2, the marginal benefits that public employees will enjoy, the Executive Branch, including its public corporations and instrumentalities. Through it, it was established that as of May 1, 2017, every public employee will have the right to accumulate vacation leave at a rate of one and one quarter (1 25) day for each month of service. As for the accumulation of sick leave, it does not change.

- e. Risk financing and insurances - The Department of Treasury acquires insurance coverage for casualty, theft, tort, claims, deposits, guarantees, property and other losses. DTOP reimburses to the Department of Treasury for such insurance premiums made on its behalf.

DTOP employee's insurance and protection are obtained through other governmental entities, such as:

- Workers Compensation acquired to provide health and life protection related to occupational accidents or incidents. This insurance is acquired with the State Insurance Fund Corporation by a monthly fee contribution of the employer, which is based in the risk level assigned to each labor.
- Non-occupational insurance acquired to provide health protection in situations not related to work activities. This insurance is acquired with Department of Labor and Human Resources and its premium is shared by both the employer and employee.
- Unemployment insurance acquired to provide supplementary compensation to employees at termination.

4. RESOURCES WITH FISCAL AGENT

DTOP's state and federal funds are under the custody of the Secretary of Treasury of the Commonwealth of Puerto Rico, pursuant the Act No. 230 of July 23, 1974, as amended, known as the "Accounting Law of the Commonwealth of Puerto Rico." The Department of Treasury follows the practice of pooling resources for all the entities under its control; however, funds of each entity are pooled in appropriation accounts with ID codes, such as fiscal year, fund, agency number ID, program, date of posting, amount, type of transaction, and classification of revenue or expenditure, among others.

5. COMMITMENTS AND CONTINGENCIES

Construction Commitments

DTOP engage outside contractors for the construction, maintenance, and remodeling of highways and to comply with the public works plan. DTOP records the construction cost based on the contractor's progress billing for the completed work or cost incurred during the fiscal year. During fiscal year 2018, DTOP signed constructions agreements for \$894,372, but only expended \$709,854. Also have commitments with Public Assistance from the Federal Emergency Management Agency (FEMA) for the amount of \$389,421,442, but only expended \$45,354,796.

Operating Leases

DTOP has a non-cancelable operating lease agreement with the Public Building Authority, a public corporation of the Commonwealth of Puerto Rico, for the rent of the central office facilities. This lease agreement expires in year 2021 and it is paid from a special appropriation reserved for this purpose as part of a budget appropriation assigned to the Office of Management and Budget of the Commonwealth of Puerto Rico during fiscal year 2018. Therefore, the payment related to such agreement is not included in the annual expenditure for local space agreements or in the future lease obligations schedule presented below.

In addition, DTOP has operating leases for other local space facilities to operate regional and customer services facilities and to rent to third parties some office equipment, as photocopiers. Photocopiers rental of \$360,299 is paid to the Commonwealth of Puerto Rico General Services Administration. A remaining balance of \$41,070 for the fiscal year 2019, from a five-year agreement, is due in December 8, 2018.

Rental charges for local space for the year ended June 30, 2018 were \$4,281,110. Future lease obligations under these operating lease agreements provides for the following minimum annual rent:

<u>Year ending as of June 30,</u>	Office Space	
	<u>Rental</u>	<u>Photocopiers</u>
2019	\$ 3,931,882	\$ 41,070
2020	3,553,884	-
2021	2,684,717	-
2022	858,230	-
	<u>\$ 11,028,713</u>	<u>\$ 41,070</u>

#### Litigation

Act No. 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against any agency or instrumentality of the Commonwealth of Puerto Rico, current and former employees, directors, executives, officials, and mayors, among others, may be represented by the Department of Justice of the Commonwealth. Any adverse claims to the defendants are to be paid by the general fund of the Commonwealth. However, the Secretary of the Treasury of the Commonwealth has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions or entities and municipalities of the defendants.

DTOP is, at present time, defendant in many lawsuits arising out of incident related to its operations. The information as to the claims and related amounts have been produced by Department of Justice of the Commonwealth of Puerto Rico to determine the extent and status of such legal actions. As of June 30, 2018, nine (9) final settlements from trials prosecuted against DTOP totaled \$48,817,027. However, as explained above the outcome of such litigation has no impact on DTOP's budget, because amounts are paid through the general fund of the Commonwealth.

## Federal Awards

DTOP is entitled with some federal awards to support program or services activities either as a recipient from a federal agency or as a sub-recipient of federal funds through a Commonwealth entitled agency. Federal awards expenditures are subjected to grantor's audit program to determine compliance with grant requirements. There is no evidence or exists prior year audit results that suggests or implies materiality from potential questioned or disallowed costs for the year ended June 30, 2018 at present or nearby future.

## 6. RETIREMENT PLAN

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

### (a) Defined Benefit Program:

Pursuant to Act No. 447 of May 15, 1951, as amended, regular employees hired before January 1, 2000 and no older than 55 years at the date of employment became members of the Defined Benefit Program under the Retirement System Plan. No pension plan benefits are eligible or payable if the participant elects to receive the refund of the accrued contributions at the termination date.

The Defined Benefit Program provides benefits because of retirement, death or disability of the participant, according to by law requirements. Retirement benefits are based upon participant's age at retirement date and the number of years of creditable service. Benefits are vested after 10 years of plan participation.

Participants who have attained the age of 55 years and have completed at least 25 years of creditable service, or who have attained the age of 58 years and have completed 10 years of creditable services, are entitled to life annuity benefit payable on monthly basis. The annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service exceeding 20 years, plus a 2% of the average compensation, as defined, multiplied by the number of years of creditable service exceeding 20 years. In no case, the annuity will be less than \$300 per month.



Any participant who has reached 30 years of creditable service is entitled to receive the Merit Annuity. When such participant also has attained the age of 55 years, he/she is approved to receive a 75% of the average compensation; otherwise, he/she will receive a 65% of the annual compensation.

Disability benefits are available for both occupational and non-occupational disability benefits; however, to receive non-occupational disability benefits, the participant must have at least 10 years of creditable service.

Employees eligible to participate of the Retirement Plan, are required to contribute a 10% of their monthly gross salary. Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement Plan System effective April 1, 1990. These changes consist principally of (i) an increase in the retirement age from 55 years to 65 years, (ii) a decrease in the percentage of the average compensation used to calculate the occupational disability and occupational death benefits annuities, (iii) a decrease in the occupational death benefits annuities from 50% to 40%, and (iv) the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

(b) System 2000 Program:

Act No. 305 of September 24, 1999, amended Act No. 447 to create System 2000 Program. System 2000 Program introduce a new benefit structure, similar to a cash balance plan (defined contribution plan). Any regular employee hired for the first time on or after January 1, 2000, and any former employee who participated in the Defined Benefit Program who received a refund of his/her accrued contributions and were rehired on or after January 1, 2000 became members of the System 2000 Program as a condition to their employment. In addition, any employee who at December 31, 1999 was participant of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their accrued contributions to the System 2000 Program. Under System 2000 Program, the retirement age was reduced from 65 to 60 years old.

System 2000 Program's participants are required to contribute a 10% of their monthly gross salary, which are recorded to individual accounts in the name of the participant. Each participant can select between three options for investing its cash balance fund. Investment income is credited to the participant's account on semi-annual basis.

However, contributions received under System 2000 Program are pooled and invested by the Retirement System, together with the assets corresponding to the

Defined Benefit Program, and eventually benefits from both programs are payable from the same pool of assets. Even though System 2000 Program has a different benefit structure than the Defined Benefit Program, the Commonwealth does not guarantee benefits at retirement age of the participants.

Upon retirement date, the participant's cash balance account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability. A benefit lump-sum payment is issued to any participant with a balance of \$10,000 or less at the retirement date or to participant's beneficiaries in the event of participant's death.

(c) Defined Contribution Hybrid Program:

Act No. 3 of April 4, 2013 amended Act No. 447-1951, Act. No. 1-1951, and Act No. 305-1999 to establish a Defined Contribution Hybrid Program which has been administrated by the Retirement System. Any regular employee hired for the first on or after July 1, 2013, and any former employee who previously participated in the Defined Benefit Program and System 2000 Program, who is rehired on or after July 1, 2013 becomes participants of the Defined Contribution Hybrid Program as an employment condition. In addition, employees who were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 Program participants.

Participants in the Defined Benefit Program who, as of June 30, 2013, were entitled to retire at the age of 58 old and receive some type of pension, may retire on any later date and will receive the annuity from the Defined Benefit Program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who have not reached the age of 60 as June 30, 2013, could be eligible for retirement depending on the new age restrictions of the Defined Contribution Hybrid Program, and if the results are positive, the participant will receive the annuity from the System 2000 Program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the benefit structures under the Retirement System, including, but not limited to the following:

1. Minimum pension for current retirees must be \$500.
2. Retirement age for participants of Defined Benefit Program will gradually increase from 58 to 61 years old.
3. Retirement age for participants of System 2000 Program participants will gradually increase from 60 to 65 years old.
4. Eliminate the Merit Annuity to participants who joined the Retirement System prior April 1, 1990.
5. Retirement age for participants who join the Retirement System on or after July 1, 2013 is 67 years old.
6. Participant contribution was raised from 8.275% to 10%.
7. For System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution; instead, they will be through a lifetime annuity.
8. Special benefits to retired participants were eliminated or reduced. Christmas Bonus to current retired participants was reduced from \$600 to \$200, but it was no longer a benefit to subsequent participants eligible for retirement. The summer bonus was eliminated for current and future retirees.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Benefits payable to participant's family members, in the event of participant's death were also modified.

Employee contributions are accrued to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory Contribution equal to or less than 0.25% is required to purchase a disability insurance. Upon retirement, the balance in each participant's account will be used to acquire an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the retired participant's death, the registered beneficiaries will continue receiving the monthly benefit until the participant's contributions be completely consumed. In case of death of a non-retired participant, the benefits will be paid in one lump-sum amount to the registered beneficiaries.

For the year ended June 30, 2018, DTOP employer's contribution was 12.275% over the gross salaries of the Retirement System's programs participants. Beginning July 1, 2013 and up to June 30, 2017, the employer's contribution rate shall be annually increased by 1%. Thereafter, beginning July 1, 2016 and up until June 30, 2021, the employer's contribution rate will be increased by 1.25%.

Additional information on the Retirement System is provided through the Retirement System financial statements for the year ended June 30, 2018, requesting a copy to:  
Retirement System of the Commonwealth of Puerto Rico PO Box 42004  
San Juan, PR 00940-2004

## 7. SUBSEQUENT EVENTS

The DTOP evaluated subsequent events through May 7, 2019, the date on which the financial statement were available to be issued. There are no material subsequent events that would require adjustments in the accompanying financial statement for the fiscal year ended June 30, 2018.

### PROMESA

In recognition of the seriousness of the financial difficulties faced by Commonwealth and its constituent authorities, the United States government enacted PROMESA. PROMESA creates a structure for exercising federal oversight over the fiscal affairs of the territories of the United States and establishes an Oversight Board with broad powers of budgetary and financial control over Puerto Rico. PEOMESA also creates procedures (in Title III and VI of PROMESA) for restructuring debts accumulated by the government of Puerto Rico and its instrumentalities, and potentially for debts of other territories.

## SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS  
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS  
JUNE 30, 2018



	<u>CFDA</u>	<u>Pass -Trough</u>	<u>Expenditures</u>	
	<u>Number</u>	<u>Entity Identifying</u>	<u>to</u>	<u>Expenditures</u>
		<u>Number</u>	<u>Subrecipients</u>	
<b>Federal Grantor Pass-Trough Grantor Program</b>				
<b><u>Pass Trough</u></b>				
<b><i>Department of Homeland Security</i></b>				
Governor's Authorized Representative (GAR)				
Federal Emergency Management Agency				
Disaster Grant Public Assistance	MP 97.036		\$ -	\$ 45,354,796
<b><i>Department of Transportation</i></b>				
National Highway Traffic Safety Administration				
State Traffic Safety Information System				
Improvement Grant	20.610	091048983	-	458,469
			<u>\$ -</u>	<u>\$ 45,813,265</u>

## General

The Schedule of Expenditure of Federal Awards shows additional resources available to support and supplement current program activities of the DTOP during the year ended June 30, 2018. These funds are granted to DTOP as recipient directly from the federal award agency and as a sub-recipient from other entity of the Commonwealth of Puerto Rico, as following explained:

- Federal Emergency Management Administration (FEMA)

DTOP has several awards from FEMA approved as disaster occur. These awards will remain open until the capital project is approved or damage is mitigated and funds are advanced to DTOP through the reimbursement method.

- PR Transit Commission

DTOP received funds through the submission and approval of a proposal for the purpose for management of traffic crash statistics. DTOP is a sub recipient of federal funds from the PR Transit Commission which is a recipient of the National Highway Traffic Safety Administration.

## Basis of Accounting

DTOP basis of accounting for federal fund programs is the same used for general fund or internal revenue fund, since cash receipts and disbursement are recognized when received and paid, as applicable. DTOP manages such funds through the Department of Treasury. However, DTOP may keep additional bookkeeping to comply with accrual accounting for federal reporting requirements.

## Catalog of Federal Domestic Assistant (CFDA) Number

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance. CFDA numbers are presented for those programs for which such numbers were available.

## Major Federal Programs

Major programs are identified in the Summary of Auditors' Results Section in the Schedule of Findings and Questioned Costs. Federal programs are presented by federal agency.

### Matching Costs

Matching costs, such as the non-federal share of certain program costs, are not included in the accompanying Schedule.

### Indirect Cost Rate

DTOP has not elected to use the 10% the minimum indirect cost rate allowed under the Section 200.414 Indirect (FEMA) costs of the Uniform Guidance.

### Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying schedule, which is prepared on the basis of accounting explained in Note 2. Office of Management and the Uniform Guidance requires that federal financial reports for claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The DTOP prepares the federal financial reports and claims for reimbursements primarily based on information from the internal accounting records.

### Reconciliation

Information included in the Schedule of Expenditures of Federal Awards agrees to the information reported in the Statement of Cash Receipts and Disbursements and source of information was obtained from the Department of Treasury.



**REPORTS REQUIRED UNDER  
UNIFORM GUIDANCE**

**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 Board of Directors of the  
Commonwealth of Puerto Rico  
Department of Transportation and Public Works:

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 statement of the Commonwealth of Puerto Rico Department of Transportation and Public Works (the "DTOP"), which comprise the statement of cash receipts and disbursements for the fiscal year ended June 30, 2018, and the related notes to the financial statement and have issued our report thereon dated May 7, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the DTOP'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 the DTOP's internal control. Accordingly, we do not express an opinion on the effectiveness of the DTOP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

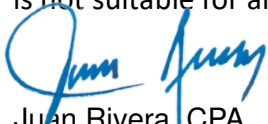
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Juan Rivera, CPA  
Toa Baja, Puerto Rico May 7, 2019  
Certified Public Accountants (Puerto Rico)  
License **No. 2214** expires December 1, 2021

Note: The Stamp No. O2764374  
Document was affixed to the original

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of the  
Commonwealth of Puerto Rico  
Department of Transportation and Public Works:

**Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of Puerto Rico Department of Transportation and Public Works (the "DTOP"), compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have direct and material effect on each of DTOP's major federal programs for the fiscal year ended June 30, 2017. DTOP's major federal programs are identified in the summary of auditor's 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of DTOP's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 DTOP'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 modified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of DTOP's compliance.

## **Opinion on Federal Grants Reporting**

As described in the accompanying schedule of findings and questioned costs, DTOP did not comply with requirements regarding on Opinion on Federal Emergency Management Agency – (97.036) and State Traffic Safety Information System Improvement Grants – (20.610) in finding number 2018-001. Compliance with such requirement is necessary, in our opinion, for DTOP to comply with the requirements applicable to that program.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

DTOP's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. DTOP'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 DTOP's 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 DTOP'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DTOP's internal control over compliance.

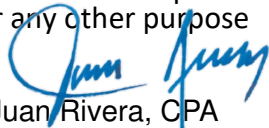
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001, which we consider to be significant deficiencies.

DTOP's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. DTOP'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 based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose



Juan Rivera, CPA

Toa Baja, Puerto Rico, May 07, 2019

Certified Public Accountants (Puerto Rico)

License No. 2214 expires December 1, 2021

Note: The Stamp No. 02764375  
Document was affixed to the original

**SCHEDULE OF FINDING AND QUESTIONED COSTS/MANAGEMENT RESPONSE**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditors' report issued Unmodified

Internal Control over financial reporting:

- |  |    |
|--|----|
| 1. Material weakness identified?   | No |
| 2. Significant deficiencies that are not to be considered material weakness? | No |
| 3. Non-compliance material to financial statement noted?                     | No |

Financial Awards

Type of auditors' report issued on compliance for each major programs:

- |  |            |
|--|------------|
| 1. Material weakness identified?   | No         |
| 2. Significant deficiencies that are not to be considered material weakness?   | Yes        |
| 3. Type of auditor's report issued on compliance for major program   | Unmodified |
| 4. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section .510(a)? | Yes        |

The program tested as major program is the following –

Federal grantor/Name of Federal Program	CFDA Number
---	-------------

U.S. Department of Homeland Security-

Federal Emergency Management Agency – Disaster Grants – Public Assistance	97.036
---	--------

The Threshold for distinguishing Types A and B Programs:	\$750,000
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Auditee qualified as low-risk auditee? \_\_\_\_\_yes   X  no



## **Section II - Financial Statement Findings**

No financial statement findings came to our attention as result of applying our auditing procedures.

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## **Section III - Federal Award Findings and Questioned Costs/Management**

Response Finding Number: 2018-001 Federal Programs:

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### ***2018-001 – Local Government Financial Reporting***

**Criteria:** The Single Audit Package and the Data Collection Form (SF-SAC Federal Audit Clearinghouse), shall be submitted 30 days after receipt the auditor’s report(s), or 9 months after the end of the fiscal year, whichever comes first.

**Condition:** The Agency failed to prepare the Financial Statement Report for the due date required by the federal government.

**Effect:** Due to the deficiencies mentioned above, the Agency is facing the following situations:

- The withholding of a percentage of federal awards until the audit is completed satisfactory.
- Withholding or disallowing overhead costs.
- Suspending federal awards until the audit is conducted; or
- Terminating the federal awards.

**Cause:** Given the variety of departments and functions of the Agency, it requires requisitions and approvals from different hierarchical levels, to present the Management Disclosure and Analysis (MDA), which prevented from delivering the Financial Statement on time.

**Identification of a repeat finding:** None repeating finding were found.

**Recommendation:** At the end of the year the Agency must coordinate efforts to have the Achievement Report completed, to avoid this situation happening again.

### **Views of responsible officials and planned corrective actions:**

The Agency agrees with this finding and will adhere to the correction action plan on pages 29 and 30 in this audit report.



May 17, 2019

To CPA Juan A. Rivera .and  
to the Cognizant Agency:

**FY2018 Corrective Action Plan**

The following is the corrective action plan addressing the finding included in the PR Department of Transportation and Public Works (PRDTPW) Single Audit for the fiscal year ended June 30, 2018.

**Section II - Financial Statement Findings**

None reported

**Section III - Federal Award Findings and Questioned Costs/Management Response**

**Finding Number: 2018-001**

**Federal Programs:**

All federal financial assistance programs.

**Category:**

Internal Control/Compliance - Significant Deficiency

**Compliance Requirement:**

Local Government Financial Reporting - Data Collection Form

**Name of Person in Charge:**

Emilse Y. Garcia Rosario- Finance and Budget Department Director

**Corrective Action Plan:**

The Assistant Secretary has instructed the Finance and Budget Department Director to submit FY 2018 report package to the Federal Audit Clearinghouse (FAC) once it be issue.

The Finance and Budget Department has already formalized the contract for the Single Audit FY 2019, and will continue to comply with the auditor's recommendations for the years thereon. In addition, the Department will reinforce efforts by establish deadlines to provide the necessary



**FY2018 Corrective Action Plan**

Pág. 2 of 2

information to auditor in order to finish the Single Audit Report and to submit the FAC data collection form before the deadline of in March 2019.

**Proposed Completion Date:**

The PRDTPW expect to complete the submission of FAC Data Collection Form of the Single Audit Report for the fiscal year that ended June 30, 2018 by June 30, 2019.

Cordially



Luis R. González Rosario  
Aux. Adm. Secretary