

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

AUDITED FINANCIAL STATEMENT AND
SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2018
TOGETHER WITH INDEPENDENT AUDITORS' REPORTS

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1-3
Required Supplementary Information: Management's Discussion and Analysis (Unaudited)	4-8
Statement of Cash Receipts and Cash Disbursements	9
Notes to the Statement of Cash Receipts and Cash Disbursements	10-23
Schedule of Expenditures of Federal Awards	24
Notes to the Schedule of Expenditures of Federal Awards	25-26
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 <i>Government Auditing Standards</i>	27-28
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	29-31
Schedule of Findings and Questioned Costs	32-40
Summary of Schedule of Prior Audits Findings	41-44
Corrective Action Plan	45

INDEPENDENT AUDITORS' REPORT

To the President of the
Commonwealth of Puerto Rico
Public Service Commission
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying statement of cash receipts and cash disbursements (“the financial statement”) of Commonwealth of Puerto Rico Public Service Commission (“PSC”), an executive agency of the Commonwealth of Puerto Rico, for the year ended June 30, 2018, and the related notes to the financial statement.

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement 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 statement that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate under 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 statement.

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 statement referred to in the first paragraph presents fairly, in all material respects, the cash receipts and cash disbursements of the Commonwealth of Puerto Rico Public Service Commission for the year ended June 30, 2018, each major fund, in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a 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.

Emphasis of a Matter Regarding Going Concern

The accompanying financial statement has been prepared assuming that PSC will continue as a going concern. As discussed in Note 3 to the financial statement, the Commonwealth, including its executive agencies, faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they become due. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the financial statement. Such information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 financial statement, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures performed do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The accompanying schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* is presented for purposes of additional analysis and is not a required part of the financial statement.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement, 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019, on our consideration of the PSC’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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PSC’s 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 PSC’s 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 PSC’s internal control over financial reporting and compliance.

Guzmán & Co., CPA PSC.

CERTIFIED PUBLIC ACCOUNTANTS

San Juan, Puerto Rico

February 28, 2019



**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

(Unaudited)

INTRODUCTION

This section of the financial statement is classified by the Governmental Accounting Standard Board (“GASB”) as Required Supplementary Information (“RSI”). It is intended to provide an objective and easy readable analysis of the government’s financial activities. Along with the Statement of Cash Receipts and Cash Disbursements, the management’s discussion analysis should provide the users with the most relevant information regarding the financial condition of the Commonwealth of Puerto Rico Public Service Commission (“PSC”) as of June 30, 2018. The management of the PSC provides this annual financial report and the management’s discussion and analysis of PSC’s performance during the fiscal year ended June 30, 2018. This report includes the cash received and cash disbursed as a result of the operating activities of the PSC including funds appropriated by the Commonwealth of Puerto Rico (“the Commonwealth”) and federal financial assistance programs granted by the U.S. Governmental Agencies (“USGA”).

OVERVIEW OF THE FINANCIAL STATEMENT

As management of the Commonwealth of Puerto Rico Public Service Commission (“PSC”), we offer readers of the annual financial report, our discussion and analysis of the PSC’s financial performance during the fiscal year ended June 30, 2018. Management’s discussion and analysis is designed to assist the reader in understanding the PSC’s operations and should be read in conjunction with the statement of cash receipts and cash disbursements, which follows this section.

The financial report consists of two parts: management’s discussion and analysis (this section), and the statement of cash receipts and cash disbursements including notes to the financial statement.

- The statement of cash receipts and cash disbursements present the cash receipts and cash disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the PSC.
- The report also includes notes to the statement of cash receipts and cash disbursements; which explain some of the information in the statement of cash receipts and cash disbursements and provides more detailed data.

The PSC utilizes the cash basis of accounting to account for all programs administered. Under this method, revenue received is recognized as cash or funds are transferred-in, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the statement of cash receipts and cash disbursements is not intended to present the PSC’s results of operations in accordance with accounting principles generally accepted in the United States of America.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

(Unaudited)

Liquidity Risk and Going Concern

The Commonwealth including its executives' agencies faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government, to continue as a going concern. During the year ended June 30, 2018, Commonwealth appropriations amounted approximately \$3,886,938, which represents a 65%, approximately of PSC's total cash receipts.

GASB Statement No. 56 requires management to evaluate whether there is a substantial doubt about a government's ability to continue as going concern for twelve months beyond the financial statement date. Information that may indicate substantial doubt as to government's ability to continue as a going concern includes a government's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring debt, submission to the oversight of a separate financial assistance authority or financial review board, or similar actions.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity are the vulnerability of revenue streams during times of major economic downturns and large health care, education, pension and debt service costs. As the Commonwealth's tax base has decreased and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth relied more heavily on short-term financings and interim loans from the Government Development Bank ("GDB"), other instrumentalities of the Commonwealth, which reliance constrained the liquidity of the Commonwealth in general and the GDB in particular and increased near-term refinancing risk. These factors resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays limited the GDB's ability to continue providing liquidity to the Commonwealth and caused the GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

(Unaudited)

Commonwealth, which had already been placed within non-investment grade ratings in February 2014. After the Commonwealth failed on its general obligation bonds and guaranteed bonds on July 1, 2016, the credit rating was lowered to "D", the lowest credit rating given to issuers that have defaulted on their obligations. They also lowered their credits ratings on the bonds of other component units of the Commonwealth, including the GDB, all of which were lowered multiple notches in the grading levels.

In addition, although the Commonwealth nor its component units are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed Fiscal Oversight Board ("the Board") that has plenary authority over Puerto Rico's finances. The Board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The Board also has oversight over legislative processes because PROMESA requires the Board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The Board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan. Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions. Finally, PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code. This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the Board total control over the adjustment process and includes certain provisions designed to protect creditor interests.

The current level of resources provided to PSC could be adversely affected in the future as a result of the severe financial condition of the Commonwealth. Unless the Commonwealth can obtain financing in the very near term or to reach restructuring or forbearance agreements with its

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

(Unaudited)

creditors, it may not be able to honor all its obligations as they come due while at the same time providing essential government services. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the Board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed Board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

Given the fact that budget appropriation for the Commonwealth's Public Service Commission has historically represented a significant portion of the total Commonwealth General Fund budget, as Commonwealth's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, the PSC's financial condition and liquidity is similarly affected.

FINANCIAL HIGHLIGHTS

The statement of cash receipts and cash disbursements presents within its cash receipts of the funds appropriated by the Commonwealth (General Fund), the business type activities (Royalties Fund), and the grants received from USGA (Federal Fund) to finance its operations and to carry out certain programs and activities. The difference between the cash receipts and disbursements is presented as an excess or deficiency for the year.

General Fund:

General fund basically consists of legislative appropriations received from the Commonwealth of Puerto Rico. During the year ended June 30, 2018 PSC received an approximately \$3,886,938 and disbursed an approximately \$3,733,241 from this fund.

Royalties Fund:

Royalties fund consists from authorizations conceded to transport people and to operate as a carrier, gas distributor, moving business and vehicle leasing. During the year ended June 30, 2017 PSC received an approximately \$1,113,000 and disbursed an approximately \$1,111,000 from this fund

Federal Awards:

Federal awards are received from U.S. Department of Transportation and are restricted to finance certain of the PSC's program costs. During the year ended June 30, 2018 PSC received an approximately \$962,000 and disbursed approximately \$792,000 from these awards.

Federal awards received from U.S. Department of Homeland Security and disbursed during the year ended June 30, 2018 amounted to approximately \$18,000.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

(Unaudited)

For the year ended June 30, 2018, PSC's Statements of Cash Receipts and Cash Disbursement reflects an excess of receipts over disbursements of approximately \$326,000. The main reason for the overall excess of cash receipts over cash disbursements is because of a timing difference because the PSC presents its statement using the cash-basis of accounting and as a result, it is limited to only reporting cash receipts and cash disbursements when the transactions meet the timing requirement. PSC participates in a pooled cash arrangement with numerous other governmental units comprising the Central Government of the Commonwealth. Due to the participation of PSC in the pooled cash arrangement, cash receipts from Commonwealth appropriations are considered received when the related disbursement is made, except for cash receipts related to indirect costs and special accounts, which are recognized when cash is received.

CONTACTING THE PSC'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the PSC's cash receipts and cash disbursements and to demonstrate the PSC's accountability for the money it receives. If you have a question or need additional financial information, contact the Commonwealth of Puerto Rico Public Service Commission, PO Box 190870, San Juan, Puerto Rico 00919-0870.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018

	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Excess of Cash Receipts Over Cash Disbursements</u>
General Fund:			
Annual appropriations from the Commonwealth of Puerto Rico	\$ 3,886,938	\$ 3,733,241	\$ 153,697
Business Type Activities:			
General Royalties	1,113,171	1,110,779	2,392
Federal Fund:			
<i>U.S Department of Transportation:</i>			
Federal Motor Carrier Safety Administration - Commercial Vehicle Safety Plan	962,054	791,992	170,062
<i>U.S Department of Homeland Security:</i>			
Federal Emergency Management Agency	<u>18,055</u>	<u>18,055</u>	<u>-</u>
Total	<u>\$ 5,980,218</u>	<u>\$ 5,654,067</u>	<u>\$ 326,151</u>

The accompanying notes are integral part of this financial statement

COMMONWEALTH OF PUERTO RICO PUBLIC SERVICE COMMISSION

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS YEAR ENDED JUNE 30, 2018

1. REPORTING ENTITY

The Public Service Commission of the Commonwealth of Puerto Rico ("PSC") was created by Law No. 109 of June 1962 as amended. PSC is presented as part of the Commonwealth's basic financial statements. The PSC is responsible for the regulation of all public service operating under private management which is not regulated directly by any other government entity. Furthermore the PSC is entitled to request information and impose administrative fines when necessary.

The PSC consists of one Commissioner President and six Public Service Commissioners named by the Governor of the Commonwealth of Puerto Rico and approved by the Senate of Puerto Rico. The organizational structure is headed by the Office of the President, Office of the Secretary and the Office of the Legal Adviser.

The Commonwealth of Puerto Rico was constituted on July 25, 1952, under provisions of its Constitution as approved by the people of Puerto Rico and the Congress of the United States of America. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the government. The Commonwealth assumes responsibility for the public safety, public health, public housing, welfare, education and economic development.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying statement of cash receipts and cash disbursements is prepared using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("US GAAP") as established by the Governmental Accounting Standard Board ("GASB"). This basis of accounting involves the recognition of revenue is recognized when cash is received or transferred-in and expenditures are recorded when the related disbursements is incurred or transferred-out. Because PSC participates in a pooled cash arrangement as further discussed below, cash receipts from Commonwealth appropriations are considered received when the related disbursement is made, except or cash receipts related to indirect costs and special accounts, which are recognized when cash is received. The timing of cash receipts from the Federal Government may differ from the date federally-funded payments are made. PSC draws amounts from the pooled cash accounts when federal funds have not yet been received and the same is replenished once the federal funds are received. All these factors in cash receipts recognition results in an excess of cash receipts over (under) disbursements at year-end.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

The accounts of the PSC are accounted for with a set of accounts, which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

This cash basis of accounting differs from US GAAP primarily because revenue (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursements) are recognized when paid rather than when incurred for subject to accrual. The amounts reported as cash receipts are those received during fiscal year 2017-2018. No accrual is recognized.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the PSC's financial statement. No long-term debt is reported in the PSC's financial statement. No accrued compensated absences are reported in the PSC's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash disbursements.

Basis of Presentation

The PSC's fiscal year ends on June 30th. All references to year in these notes to financial statements represents the fiscal year ended, unless otherwise notes.

Fund Financial Statements

Fund accounting is designated to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of PSC that are reported in the accompanying statement of cash receipts and cash disbursements have been classified into governmental funds. Major individual government funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column. The following are classified as major governmental funds:

- *General Fund* – The general fund is the main operating fund of the PSC. It is used to account for all financial resources except those required to be accounted for separately. Basically, is used to account the appropriations received from the Commonwealth of Puerto Rico.
- *General Royalties Fund* – The general royalties fund accounts cash receipts from authorizations conceded to transport people and to operate as a carrier, gas distributor, moving business and vehicle leasing.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

- *Federal Grants Fund* – Federal grants funds accounts for the financial resources related to the federal grant awards administrated by the PSC. Basically, consist of funds approved by the U.S. Department of Transportation (“DOT”).

Budgetary Accounting

The PSC's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. PSC is granted the right to draw against available funds of the Secretary of the Treasury as its mean to incur in expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to PSC as it relates to funds appropriated by the Commonwealth.

- Between November and December, the PSC submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
- At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.
- The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to the enactment, the Office of Management and Budget of the Commonwealth has the authority to make necessary adjustments to the budget.

Federal grant funds can be carried over for a specified amount of time, upon request to and approval by the Federal Agencies.

Cash disbursements - budgetary are generally recorded when the related payment, purchase order or contract is recorded as an encumbrance. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

Encumbrances lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001, which amended the then existing appropriations and encumbrances lapsing provisions of Act No. 230 of July 23, 1974. Unencumbered appropriations lapse at fiscal year-end.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

Under the statutory basis of accounting, PSC uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The statement of cash receipts and cash disbursements is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.

Cash

The funds of the PSC from legislative appropriations and federal grants are under the custody of the Secretary of Treasury of the Commonwealth of Puerto Rico, pursuant to Act No. 230 of July 23, 1974, as amended, known as the "Commonwealth of Puerto Rico Accounting Law". The Department of Treasury of the Commonwealth of Puerto Rico follows the practice of pooling resources under the custody of the Secretary of the Treasury. Those portions of funds of the PSC are pooled in appropriation accounts and are available to meet the PSC's current operating requirements

Compensated Absences

The vacation policy of the Commonwealth of Puerto Rico that applies to the PSC's employees provides for the accumulation of 2.5 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. The PSC's employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth of Puerto Rico.

Pension Costs

The PSC adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The PSC accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying financial statement are equal to the statutory required contributions.

For the purpose of applying the requirements of the Codification, the Commonwealth is considered to be the sponsor of the Employee's Retirement System of the Commonwealth of

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the PSC participate. The PSC is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth.

Operational Leases

The PSC is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the asset nor the liabilities of the lease agreements are reflected in the accounting records. Rent disbursed under such lease agreements for the year ended June 30, 2018 amounted to approximately \$313,000.

Risk Management

The Commonwealth's Secretary of the Treasury is responsible for purchasing a commercial insurance covering casualty, theft, tort, claims, and other losses for the PSC. The PSC reimburses the Commonwealth for premium payments made on its behalf. The PSC's current insurance policies have not been canceled or terminated. For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation insurance to the PSC's employees.

3. GOING CONCERN

The discussion in the following paragraphs regarding Commonwealth, including PSC, financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about PSC's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

The Commonwealth, including its executives' agencies, faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government, to continue as a going concern. During the year ended June 30, 2018, Commonwealth appropriations amounted approximately to \$3,887,000, which represents a 65%, approximately of PSC's total cash receipts. The budget appropriation for the Commonwealth's Public Service Commission has historically represented a significant portion of the total Commonwealth General Fund budget.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity are the vulnerability of revenue streams during times of major economic downturns and large health care, education, pension and debt service costs. As the Commonwealth's tax base has decrease and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the Government Development Bank ("GDB"), other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB in particular and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited the GDB's ability to continue providing liquidity to the Commonwealth and have caused the GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. After the Commonwealth failed on its general obligation bonds and guaranteed bonds on July 1, 2016, the credit rating was lowered to "D",

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

the lowest credit rating given to issuers that have defaulted on their obligations. They also lowered their credits ratings on the bonds of other component units of the Commonwealth, including the GDB, all of which were lowered multiple notches in the grading levels. In addition, although the Commonwealth nor its component units are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed Board that has plenary authority over Puerto Rico's finances. The Board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The Board also has oversight over legislative processes because PROMESA requires the Board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The Board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan. Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions. Finally, PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code. This process includes the so-called "calm-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the Board total control over the adjustment process and includes certain provisions designed to protect creditor interests.

The current level of resources provided to PSC could be adversely affected in the future as a result of the severe financial, condition of the Commonwealth. Unless the Commonwealth can obtain financing in the very near term or to reach restructuring or forbearance agreements with its creditors, it may not be able to honor all its obligations as they come due while at the same time providing essential government services. While PROMESA provides the Commonwealth

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the Board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed Board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

The government of Puerto Rico has taken immediate steps to address the Island's fiscal crisis. On January 2, 2017, vital structural reforms were taken among other cost reduction initiatives including: (1) reduction of ten percent in government spending for the fiscal year 2016; (2) reduction of ten percent (10%) in professional service contracts, and a five percent (5%) decrease in utility spending for all government agencies and public corporations; and (3) a twenty percent (20%) reduction in positions of trust in each agency and/or public corporation. Another Executive Order No. 2017-002, signed that same day, created the Center for Federal Opportunities to improve the Government's ability to obtain, maximize and improve the oversight of federal funds and resources. This is an important step towards addressing your concern that "there is no central office to manage federal funds and optimize use of proceeds".

Furthermore, Executive Order No. 2017-003, declares a state of emergency in infrastructure, thus creating an expedited process for infrastructure projects which are much needed in order to boost the local economy and, as complement, Executive Order No. 2017-004 creates a Governmental Task Force for urgent infrastructure projects that require the approved expedited process.

Through these Orders, the Government of Puerto Rico have set in motion the process to "build a modern, efficient and cost-effective infrastructure that ensures quality utility services are delivered fairly to every island region". Also, Executive Order No. 2017-005 requires all agencies and public corporations to establish a Zero-Base Budgeting methodology to reduce government spending. Lastly, Executive Order No. 2017-009 imposes a five percent (5%) reduction in purchases of goods in all government agencies. These orders will result in more efficient government operation "while preserving essential services for the People of Puerto Rico".

Additionally, on January 9, 2017, the Government of Puerto Rico introduced profound labor reforms. The Employment Transformation and Flexibility Act is growth initiative aimed at reducing the cost of doing business in Puerto Rico and creating a more competitive economy in order to attract new capital and allow the private sector to create much needed jobs. This bill includes most if not all the comprehensive labor reforms that you stated in your letter, including, among other things, significant changes related to severance pay, flexible scheduling, employee retention and mandatory vacation days. Simultaneously, an additional bill was introduced in which converts the Government into a single employer. Through the

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

Personnel Management Transformation Act, the Government of Puerto Rico will reduce spending and create efficiencies in all government agencies.

As stated in the preceding paragraphs, the Government of Puerto Rico has taken immediate steps and is in search of additional measures that will bring solvency and establish a future economic growth. Until then, given that PSC is an Executive Agency of the Commonwealth and the high dependency on Commonwealth appropriations, PSC financial condition and liquidity is currently affected. As a result, management of the PSC has concluded that there is substantial doubt as to the ability of the PSC to continue as a going concern in accordance with GASB Statement No. 56.

The above measures were submitted to and evaluated by the Fiscal Oversight Board ("Board") and were certified on March 13, 2017.

4. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The budget of PSC is part of the general budget of the Commonwealth. As a result, legal control is maintained by the Director of the Office of Management and Budget of the Commonwealth. The budgetary control and accountability of the PSC is maintained by the Commonwealth. Accordingly, no budgetary comparison schedule is presented within this statement.

5. INDIRECT COST RATE PROPOSAL

Generally, each year, the PSC submits an indirect cost rate proposal for approval by the United State Department of Transportation ("the DOT"), the Audit Cognizant Agency. On February 22, 2018, the DOT entered into an Indirect Cost Rate Agreement No. 2018-001 with the PSC. This agreement includes final rate which became effective on July 1, 2017 until June 30, 2018. The rate within the agreement for the year ended June 30, 2017 was 28.00% for the program, based on salaries and wages, including fringe benefits. This rate is used to allocate qualified types of expenditures from state funds to the federal financial assistance program.

6. RETIREMENT PLAN

Description of the Plan

Employees of the PSC participate in the Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The ERS is a cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. The ERS covers all regular employees of the

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Commonwealth Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee Appointees and Experimental Service Station employees. The ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Members who have attained at least 55 years of age and have completed at least 25 years of credited service or members who have attained at least 58 years of age and have completed at least 10 years of credited service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non- occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The PSC is required by Act No. 447 to contribute 9.275% of its employee's gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age of 65, a decrease in the annuity benefit to 1.5% of the average salary, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, and the elimination of the Merit Annuity for participant who have completed 30 years of creditable services.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

Law Number 35 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements like those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employer's contributions (9.275% of the employee's salary) will be used to fund the current plan.

If at time of retirement accumulated benefits amount to \$10,000 or less the retiree may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plan's members, employers and other contributing entities (state of municipal contributions) are established or may be amended by law.

Annual Contribution

The PSC's contributions are recognized as total pension expenditures in the category of administration. Total amount contributed during fiscal year 2017-2018 amounted to approximately \$369,000.

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

COMMONWEALTH OF PUERTO RICO

PUBLIC SERVICE COMMISSION

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS YEAR ENDED JUNE 30, 2018

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the “merit annuity” available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.
- The PSC’s contributions will increase gradually effective July 1, 2013. The required contribution for fiscal year ending June 30, 2017 will be 15.525%. Subsequently the required contribution will increase by 1% every year up to July 1, 2016 when the annual increase will be 1.25% up to a total contribution of 20.525%.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2017 a copy of which can be obtained from the *Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.*

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

7. COMMITMENTS AND CONTINGENCIES

Federal Financial Assistance Programs

The PSC is a grantee in various federal financial assistance programs. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Based on this, the PSC is required to comply with the audit requirements established by the Uniform Guidance.

The PSC's management believes, based on prior experience, that the amount of expenditures, which may be disallowed by the granting agencies from such audits if any, would not be material in relation to the operations of the PSC.

Current Single Audit

The Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program issued in connection with the single audit for the year ended June 30, 2018, findings that are considered events of noncompliance with applicable laws and regulations and significant deficiencies in internal control over compliance. Some of these significant deficiencies were also considered material weaknesses.

Litigation

The Commonwealth of Puerto Rico's Law 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuit initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors, mayors, and other may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund.

However, the Secretary of the treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants.

PSC is, at present, defendant in a number of lawsuits arising out of, and incident to its operations. The information as to the claims and related amounts has been produced by Department of Justice of the Commonwealth of Puerto Rico in order to determine the extent and status of such legal actions. However, as explained above the outcome of such litigation has no impact on PSC's budget, because amounts are paid through the general fund of the Commonwealth of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2018**

8. SUBSEQUENT EVENTS

PSC has evaluated subsequent events through February 28, 2019, the date which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

<i>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass- Through Entity Identifying Number</i>	<i>Passed Throught to Subrecipient</i>	<i>Total Federal Expenditures</i>
U.S. Department of Transportation				
Federal Motor Carrier Safety Administration				
Commercial Vehicle Safety Plan	20.218	n/a	\$ -	\$ 791,992
U.S. Department of Homeland Security				
Federal Emergency Management Agency	97.036	n/a	-	18,055
Total Expenditures of Federal Awards			\$ -	\$ 810,047

The accompanying notes are integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (“the Schedule”) includes the federal award activity of the Commonwealth of Puerto Rico Public Service Commission (“PSC”), an agency of the Commonwealth of Puerto Rico, under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the 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”). Because the Schedule presents only a selected portion of the operations of the PSC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the PSC.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The PSC reporting entity is defined in Note 1 to the Commission’s schedule of cash receipts and disbursements activities. All federal awards received directly from federal agencies are included in the schedule of expenditures of federal awards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting which is described in Note 1 to the PSC’s Statement of Cash Receipts and Cash Disbursements.

Expenditures reported on the Schedule are determined using the cost accounting principles and procedures set forth in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Puerto Rico Public Service Commission has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. FEDERAL 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.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

4. 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 PSC's Statement of Cash Receipts and Cash Disbursements.

5. INDIRECT COST RATE

The amount expended includes approximately \$8,600 claimed as an indirect cost recovery using an approved indirect cost rate of 28.00% for Federal Motor Carrier Program based on salaries and wages, including fringe benefits, professional services, rent, and other expenses.

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 President of the
Commonwealth of Puerto Rico
Public Service Commission
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 statement of cash receipts and cash disbursements (the "financial statement"), of the Commonwealth of Puerto Rico Public Service Commission ("PSC"), for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprise PSC's basic financial statement, and have issued our report thereon dated February 28, 2019. Our report includes an emphasis of a matter paragraph which states along with other matters, that PSC as an executive agency of the Commonwealth of Puerto Rico faces significant risks and uncertainties, including liquidity risk. These conditions raise substantial doubt about PSC's ability to continue as a going concern. Our report also includes a paragraph indicating that the Statement only purports to presents the cash receipts and cash disbursements attributable to the PSC.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the PSC'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the PSC's internal control. Accordingly, we do not express an opinion on the effectiveness of the PSC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. 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 and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent,

or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, as finding 2018-003.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, as findings 2018-001, 2018-02 and 2018-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PSC's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs to be significant deficiencies, as findings 2018-001, 2018-002 and 2018-004.

PSC's Response to Findings

PSC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSC's response was not subjected to the auditing procedures applied in the audit of the financial statement 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 PSC'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 PSC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Guzmán & Co., CPA PSC.

CERTIFIED PUBLIC ACCOUNTANTS

San Juan, Puerto Rico

February 28, 2019



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

To the President of the
Commonwealth of Puerto Rico
Public Service Commission
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Puerto Rico Public Service Commission's ("PSC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on the PSC's major federal program for the year ended June 30, 2018. The PSC's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the PSC's major federal program 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 the PSC'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 the major federal program. However, our audit does not provide a legal determination of the PSC's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commonwealth of Puerto Rico Public Service Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a

direct and material effect on Federal Motor Carrier Safety Administration – Commercial Vehicle Safety Plan Program for the year ended June 30, 2018.

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 findings 2018-003 and 2018-004. Our opinion on Federal Motor Carrier Safety Administration – Commercial Vehicle Safety Plan Program is not modified with respect to these matters.

PCS's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PCS'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 Commonwealth of Puerto Rico Public Service 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 PSC'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 the PSC's internal control over compliance.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs as finding 2018-003 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 finding and questioned costs as finding 2018-004 to be significant deficiencies.

PSC's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSC's response was not subject 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.

Guzmán & Co., CPA PSC.

CERTIFIED PUBLIC ACCOUNTANTS

San Juan, Puerto Rico

February 28, 2019



**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes x no

Significant deficiency(ies) identified that are not
 considered to be material weakness(es)? x yes none reported

Noncompliance material to financial statement noted? yes x no

FEDERAL AWARDS:

Internal control over major programs:
 Material weakness(es) identified? x yes no

Significant deficiency(ies) identified that are not
 considered to be material weakness(es)? x yes none reported

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

Any audit findings disclosed that are required to be reported
 in accordance with 2 CFR 200.516(a)? x yes no

IDENTIFICATION OF MAJOR PROGRAM:

<u>Name of Federal Program</u>	<u>CFDA No.</u>
Federal Motor Carrier Safety Administration - Commercial Vehicle Safety Plan	20.218

Dollar threshold used to distinguish between type A and
 type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes x no

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Finding Number: 2018-001
Federal Program: CFDA #20.218 - Federal Motor Carrier Safety
Administration - Commercial Vehicle Safety Plan
Category: Internal Control - Significant Deficiency
Compliance Requirement: General Regulations of Uniform Guidance
Identification of Repeating Finding: 2017-001

Financial Management – Employees files

Condition:

During our audit we observed that personnel files are not being kept current and in some instances were incomplete. In certain instances, forms such as I-9, among others, were not included in the files.

Criteria:

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

Cause:

Controls and procedures that require that employee's files be current are not carried out consistently and there is no proper supervision that requires compliance with established policy.

Effect:

By not maintaining employees' files current, the PSC's is exposed to penalties in case of legal claims. In addition, the PSC is not in compliance with current laws and regulations.

Questioned cost:

None

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Recommendation:

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

Management responses:

All active personnel files are being reviewed in order to ensure future compliance with required documentation. This process is going and will conclude before June 30, 2020.

Responsible Officer:

Human Resources Department

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 2018-002
Federal Program: CFDA # 20.218 - Federal Motor Carrier Safety
Administration - Commercial Vehicle Safety Plan
Category: Internal Control - Significant Deficiency
Compliance Requirement: General Regulations of Uniform Guidance
Identification of Repeating Finding: 2017-002

Financial Management – Accounting System and Reporting Practices

Condition:

The petitions of federal funds are not timely requested, neither are they timely recorded.

Criteria:

As stated in Uniform Guidance Part 200.302 – Standards for financial management: the financial management system of other grantees and subgrantees must meet the following standards:

The financial management system must be enough to permit the preparation of reports required by general and program specific terms and conditions; and the tracing of the funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

In addition, a sound system of internal control is essential to ensure that all receipts and disbursements are recorded accurately and timely.

Cause:

The PSC is using local funds to finance the federal operation. The reporting to the federal government is also been performed late.

Effect:

The PSC does not have accurate set of financial information that could help the decision-making process.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Questioned cost:

None

Recommendation:

We recommend that management strengthen its internal controls and establish a formal process of funds petition and recording.

Management responses:

Section 7.10 of the FMCSA's Motor Safety Assistance program – Grant Comprehensive Policy, Version 3.1, March 2018, states that in accordance with fixing Americas surface transportation Act (FAST Act, Pub L No. 114-93 (2015)), “all FMSCA award recipient must request reimbursement at least on a quarterly basis”. Said policy does not establish a due date for the submittal of invoices (vouches). However, as this same finding was included in the Commonwealth of Puerto Rico Public Service Commission Statement of Cash Receipts and Cash Disbursements for the year ended June 30, 2017, the PSC has been submitting invoices more frequently.

Responsible Officer:

Finance Department

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Finding Number: 2018-003

Federal Program: CFDA # 20.218 - Federal Motor Carrier Safety Administration - Commercial Vehicle Safety Plan

Category: Internal Control - Significant Deficiency
Compliance

Compliance Requirement: Reporting

Identification of Repeating Finding: 2017-004

Condition:

While performing our audit procedures over reporting compliance requirement, we noticed that the submissions of the first (09/30/17) and second (12/31/17) quarters of the Federal Financial Report (SF-425), required by the Federal Motor Carrier Safety Administration (“FMCSA”), was submitted late by the Motor Carrier Safety Assistance Program (“MCSAP”).

The due date and the MCSAP submitted date are as follows:

Quarter	FMCSA	MCSAP
<u>Endig Date</u>	<u>Due Date</u>	<u>Submitted Date</u>
09/30/17	10/31/17	04/19/18
12/31/17	01/31/18	04/19/18

Criteria:

As per Grant Award Guidance from FMCSA, grantees must report federal expenditures on a quarterly basis to FMCSA and should submit through the Grants Management System (GMS) Financial Report Module no later than thirty (30) days after quarter ending date.

Cause:

Lack of compensatory monitoring controls.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Effect:

Failure to comply with grants requirements may result in the withholding of grants, the suspension or termination of the grant, and/or the return of grant funds. It also may jeopardize any pending or future applications with FMCSA.

Questioned cost:

None

Recommendation:

We recommend PSC's management to emphasize the importance of submitting required grant documentation, including final financial reports, in a timely manner.

We recommend PSC's management to strengthen its internal control procedures or the preparation, review, and submission of required federal reports to ascertain compliance and timely filing.

Management responses:

It should be noted that Financial Reports may be timely submitted, but if any modification of a voucher contained in that report has been requested by FMCSA, the Financial Report must be resubmitted with the information from the modified voucher. The system recognizes the date of submittal of the modified report as the date of submittal, even though the report may have been timely submitted.

MCSAP's Director will call a meeting at the end of each quarter with the personnel responsible of submitting the Financial Report in order to ensure compliance with FMCSA's deadlines and overseas that the vouchers will not have to be modified.

Responsible Officer:

Federal Funds Department

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Finding Number: 2018-004

Federal Program: CFDA #97.036 - US Department of Homeland Security - Federal Emergency Manahement Agency

Category: Internal Control - Significant Deficiency

Compliance Requirement: General Regulations of Uniform Guidance

Identification of Repeating Finding: None

Condition:

During our audit test, in certain instances we noted that certain approvals were missing from the disbursement package.

Criteria:

Proper internal control procedures require that each disbursement package contains the required approvals.

Cause:

No proper implementation of internal control procedures.

Effect:

No implementation of internal control procedures that require the pre-intervention of the disbursement package for all disbursements could expose the Commission to losses due to unauthorized or improper payments.

Questioned cost:

None

Recommendation:

Internal Control procedures that require the pre-intervention of all disbursements should always be established and enforced.

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Management responses:

Additional emphasis will be put on the disbursement approval process

Responsible Officer:

Administration Department

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

Finding Number: 2017-001
Federal Program: CFDA #20.218 - Federal Motor Carrier Safety
Administration - Commercial Vehicle Safety Plan
Category: Internal Control - Significant Deficiency

Financial Management – Employees files

Condition:

During our audit we observed that personnel files are not being kept current and in some instances were incomplete. In certain instances, forms such as I-9, among others, were not included in the files.

Questioned cost:

None

Status:

In progress

Management Corrective Action Plan:

See current year finding # 2018-001

Anticipated Completion Date:

June 30, 2020

Responsible Officer:

Human Resources Department

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

Finding Number: 2017-002
Federal Program: CFDA # 20.218 - Federal Motor Carrier Safety
Administration - Commercial Vehicle Safety Plan
Category: Internal Control - Significant Deficiency
Compliance Requirement: General Regulations of Uniform Guidance

Financial Management – Accounting System and Reporting Practices

Condition:

The petitions of federal funds are not timely requested, neither are they timely recorded.

Questioned cost:

None

Status:

In progress

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

Finding Number: 2017-003
Federal Program: CFDA # 20.218 - Federal Motor Carrier Safety
Administration - Commercial Vehicle Safety Plan
Category: Internal Control - Material Weakness Compliance
Compliance Requirement: Level of Effort-Maintenance of Effort

Condition:

The PSC did not meet the required level of effort MOE baseline for FFY2016.

Subsequently, in June 29, 2018, the PSC was granted a waiver of \$10,860 for the FFY2016. In addition, in April 17, 2018 the CSP was granted a waiver of \$134,329.05 for the FFY2017 and \$134,329.05 for the FFY2018.

Questioned cost:

None

Status:

Resolved

Management Corrective Action Plan:

None

Anticipated Completion Date:

None

Responsible Officer:

Administration Department

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

Finding Number: 2017-004
Federal Program: CFDA # 20.218 - Federal Motor Carrier Safety
Administration - Commercial Vehicle Safety Plan
Category: Internal Control - Significant Deficiency
Compliance Requirement: Reporting

Condition:

Submissions of three of the quarterly Federal Financial Reports (SF-425) were submitted to the Federal Motor Carrier Safety Administration past their due date.

Questioned cost:

None

Status:

In Progress

Management Corrective Action Plan:

See current year finding #2018-002

Anticipated Completion Date:

Responsible Officer:

Federal Funds Department



GOBIERNO DE PUERTO RICO

Comisión de Servicio Público

Corrective Action Plan Single Audit Requirements as of June 30, 2018.

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		Expected Target Date
			Management Response and/or Action	Assigned Responsibility	
2018-001 2017-001	Internal Control	Personnel files are not been kept current.	All active personnel files are being reviewed in order to ensure future compliance with required documentation. This process is ongoing and will conclude before June 30, 2020. After checking the active files last year to verify that they had the complete documents, we proceeded to send an email to all the employees who lacked documents to update the file. To this day, about 3 to 5 employees are missing for submitting the documents. However, we have been tracking these employees. Enclosed you will find one of the emails sent.	Human Resources Department	June 30, 2020
2018-002 2017-002	Internal Control	The partition of federal found are not timely requested, neither are recorded.	Section 7.10 of the FMCSA's Motor Carrier Safety Assistance Program – Grant Comprehensive Policy, Version 3.1, March 2018, states that, in accordance with Fixing America's Surface Transportation Act (FAST Act, Pub. L. No. 114-93 (2015)), "all FMCSA award recipients must request reimbursement at least on a quarterly basis". Said policy does not establish a due date for the submittal of invoices ("vouchers"). However, as this same finding was included in the Commonwealth of Puerto Rico Public Services Commission Statement of Cash Receipts and Cash Disbursements for year ended June 30, 2017 [sic], Finding No. 2017-002, the PSC has been submitting invoices more frequently. PSC's Corrective Action Plan for this finding stated that vouchers would be submitted monthly, especially payroll and staffing allowances. We have attached three (3) printouts of the U.S. Department of Transportation's DELPHI invoicing system, which indicate how frequently the PSC has submitted the vouchers and how said frequency has been increasing through the years. For example, vouchers were submitted at least quarterly during FY2017 and almost monthly during FY2018. Through this program you can also view each voucher and its substantiation documents, as well as track which invoices have been paid and when. In addition to submitting the vouchers more frequently, the PSC began submitting with each voucher the updated Commercial Vehicle Safety Plan (CVSP) Budget Worksheet to ensure compliance with FMCSA's Motor Carrier Safety Assistance Program – Grant Comprehensive Policy, supra. The implementation of this enclosure began with Voucher No. PR-17-V-5, submitted on May 15, 2018. Moreover, This grant period of performance runs for two (2) years (October 1, 2017 - September 30, 2019). However, petition of funds begin during the second year, i.e. vouchers will not begin by the time the award is granted.	Finance Department	The corrective action has been implemented since April 1, 2017. PSC is in compliance.
2018-003	Internal Control	While performing our audit procedures over reporting compliance requirement, we notice that the submissions of the first (09/30/17) and (12/31/17) quarters of the Federal Financial Reports (SF-425), required by the Federal Motor Carrier Safety Administration ("FMCSA"), was submitted late by the Motor Carrier Safety Assistance Program ("MCSAP").	This two (2) particular Federal Financial Reports were delayed due to Hurricane Maria. The island of Puerto Rico was without electricity, communications and water until the end of 2017. Systems were not completely restored and back to normal until 2018. On October 26, 2017, Mr. Mark Reger, Deputy Controller of the Office of Federal Financial Management issued a "Memorandum for the Chief Financial Officers and Grant Policy Officials" in which instructed agencies to allow to delay submission of Financial and other reporting up to three (3) months beyond the normal due date. These reports had to be amended several times they were finally accepted on the date shown. As requested by the new FMCSA PR Division Administrator Financial Reports are being submitted in conjunction with the Performance Progress Reports.	Federal Funds Department	PSC is in compliance, waiver has been obtained.
2018-004	Internal Control	During our audit test, in certain instance we noted that certain approvals were missing from the disbursement package.	On August 12, 2018, Law No. 211-2018, Law for the Execution of the Reorganization Plan of the Public Service Regulatory Board of Puerto Rico (PSRB), was approved. In accordance with said Reorganization Plan, the administrative functions of the former Public Service Commission, now the Transportation Bureau and other Public Services, have been transferred to the new PSRB agency. This process is in execution and new regulations and internal procedures have been generated for this purpose. This finding will be addressed in the mentioned process to guarantee a more rigorous internal control at the time of the pre-intervention of the disbursement packages..	Administration Department	Corrective Action will be taken immediately.

I certify that the information above is correct.

Mr. Luis D. García Fraga Esq.
President

3/26/19

Date

Mr. Carlos G. Vazquez Ortiz A.E.
Administrator

3/26/19

Date