

COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION
FINANCIAL STATEMENT
FISCAL YEAR ENDED JUNE 30, 2011
(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

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TABLE OF CONTENTS

	Pages
Part I – Financial:	
Independent Auditors' Report.....	2- 3
Financial Statement:	
Statement of Cash Receipts and Disbursements – Governmental Funds.....	4
Notes to Financial Statement.....	5- 9
PART II – Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and OMB Circular A-133:	
Schedule of Expenditures of Federal Awards.....	10
Notes to Schedule of Expenditures of Federal Awards.....	11
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>	12-13
Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	14-15
PART III – Findings and Questioned Costs:	
Schedule of Findings and Questioned Costs.....	17-19
Summary Schedule of Prior Audits' Findings.....	20

PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Cash Receipts and Disbursements – Governmental Funds of the **Public Service Commission of the Commonwealth of Puerto Rico (PSC)** for the fiscal year ended June 30, 2011. This statement is the responsibility of the PSC's management. 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 of material misstatement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the PSC prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the financial statement of the PSC is intended to present the cash receipts and disbursements of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the PSC. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements of the PSC governmental funds, and the respective cash basis net changes thereof for the year then ended in conformity with the basis of accounting described in Note 1.



INDEPENDENT AUDITORS' REPORT

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012 on our consideration of the **PSC's** internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts and Disbursements – Governmental Funds that collectively comprise the **PSC's** financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the Statement of Cash Receipts and Disbursements – Governmental Funds as a whole.

CPA Diaz-Martinez, PSC

CPA DIAZ-MARTINEZ, PSC

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2013

Caguas, Puerto Rico

January 27, 2012



COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS –
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>General Royalties Fund</u>	<u>Excavations and Demolitions Fund</u>	<u>Federal Grants Fund</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:					
Appropriations from the Commonwealth of Puerto Rico – Regular Budget	\$ 2,591,312	\$ -	\$ -	\$ -	\$ 2,591,312
Appropriations from the Commonwealth of Puerto Rico – Stability Fund	5,495,000	-	-	-	5,495,000
Federal Grants	92,593	-	-	542,980	635,573
Charge for Services	-	1,093,516	508,303	-	1,601,819
Total Cash Receipts	<u>8,178,905</u>	<u>1,093,516</u>	<u>508,303</u>	<u>542,980</u>	<u>10,323,704</u>
CASH DISBURSEMENTS:					
Motor Carrier Safety Assistance Program	-	-	-	463,311	463,311
Pipeline Safety Grant Program	-	-	-	85,373	85,373
Pipeline Safety Grant Program - 2010 One Call	-	-	-	20,000	20,000
General Royalties	-	1,405,505	-	-	1,405,505
Excavations and Demolitions	-	-	407,610	-	407,610
General Administration and Direction	7,959,378	-	-	-	7,959,378
Total Disbursements	<u>7,959,378</u>	<u>1,405,505</u>	<u>407,610</u>	<u>568,684</u>	<u>10,341,177</u>
NET CHANGES	<u>\$ 219,527</u>	<u>(\$ 311,989)</u>	<u>\$ 100,693</u>	<u>(\$ 25,704)</u>	<u>(\$ 17,473)</u>

See accompanying Notes to Financial Statement.

A. Summary of Significant Accounting Policies

Organization

The **Public Service Commission of the Commonwealth of Puerto Rico (PSC)** was established under Law Number 109 of June 1962, as amended. The **PSC** is responsible for the regulation of all public service operating under a private entity management which is not regulated directly by any other government entity. Furthermore the **PSC** is entitled to request information and impose administrative fines when applicable compliance with laws and regulations.

The **PSC** consists of one Commissioner President and six Public Service Commissioners named by the Governor 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 Advisory.

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 public safety, public health, public housing, welfare, education, and economic development.

Financial Reporting Entity

The **PSC** is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because **PSC** is part, for financial reporting purposes, of the Commonwealth of Puerto Rico, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. The **PSC** accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of the **PSC**'s management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The **PSC**'s accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received and disbursement are recorded when the related cash payment is made. 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 fund column upon cash payment.

Basis of Presentation

The Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the **PSC** is intended to 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**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

1. **Summary of Significant Accounting Policies** (continuation)

The accounts of **PSC** are organized on the basis of one fund type, which is responsible for the coordination, receipt, and management of funds. This fund is composed for four programs which are described below. 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. The following individual programs account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- **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.
- **General Royalties Fund** – Accounts for cash receipts from authorizations conceded to transport people and to operate as a carrier, gas distributor, moving business and vehicle leasing.
- **Excavations and Demolitions Fund** – Accounts for the cash receipts derived to give permits to make excavations and demolitions
- **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grant Awards administered by the **PSC**.

Basis of Accounting

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

Budgetary Accounting

Formal budgetary accounting is employed as a management control for all programs of the **PSC**. Annual operating budgets are adopted each fiscal year through passage of an annual budget which is approved by the Commonwealth of Puerto Rico Legislature and amended as required through the year. All unencumbered budget appropriations of local funds lapse three years after the end of each fiscal year. Also, during the fiscal year 2010-2011, **PSC** received the amount of \$5,495,000 from Act Number 7, Stability Fund, enacted by the Commonwealth of Puerto Rico. Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the United States *Department of Transportation*.

The financial statement 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.

2. **Cash with Financial Institutions and with Fiscal Agents (Department of the Treasury of the Commonwealth of Puerto Rico)**

The funds of the **PSC** are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as "Commonwealth of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the **PSC** in such pooled cash accounts are available to meet its current operating requirements.

3. Lease Commitments

The **PSC** rent its facilities and equipment through operating lease agreements with private entities. Rent disbursed under such lease agreements for the year ended June 30, 2011 amounted to \$1,025,138. Also, the **PSC** entered into a new long-term agreement for its main office, which has a term of five (5) years, with an annually payment of \$552,000, paid in monthly installments of \$46,000.

4. Pension Plan

Description of the Plan

Employees of the **PSC** participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government 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, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. 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 ten years of plan participation.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$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, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. 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 employees' 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 to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

4. Pension Plan (continuation)

Law Number 305 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 Government. The annuity will be based on a formula which assumes that each year the employees' 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: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

If at time of retirement accumulated benefits amount to \$10,000 or less 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 plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

PSC	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Annual Contribution

The PSC's contributions during those years are recognized as total pension expenditures in the category of administration. Total amount contributed during fiscal year 2010-2011 was \$110,150.

The amount contributed represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

5. Contingencies

A. Claims and Judgments

The **PSC** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **PSC**'s activities. The legal counsel of the **PSC** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **PSC** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the **PSC**'s experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

In the normal course of operations, the **PSC** receives grants from various Federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The **PSC** is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

END OF NOTES

**COMMONWEALTH OF PUERTO RICO
PUBLIC SERVICE COMMISSION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Transportation:			
Motor Carrier Safety Assistance Program	20.218		\$ 463,311
Pipeline Safety Grant Program	20.700		85,373
Pipeline Safety Grant Program – 2010 One Call	20.700		<u>20,000</u>
Total U.S. Department of Transportation			<u>568,684</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 568,684</u>

See the accompanying Notes to Schedule of Expenditures of Federal Awards.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the **Public Service Commission of the Commonwealth of Puerto Rico (PSC)**. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **PSC**, it is not intended to and does not present the financial position, or change in net assets 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) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available.

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.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the **PSC**'s Statement of Cash Receipts and Expenditures – Governmental Fund in the Federal Grants Fund.

END OF NOTES



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

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

We have audited the Statement of Cash Receipts and Disbursements – Governmental Funds of the **Public Service Commission of the Commonwealth of Puerto Rico (PSC)**, for the fiscal year ended June 30, 2011, which comprise the **PSC's** basic financial statement and has issued our unqualified report thereon dated January 27, 2012. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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



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

To the President
Public Service Commission
of the Commonwealth of Puerto Rico
Page 2

This report is intended for the information and use of the PSC's management, the Commonwealth of Puerto Rico, the U.S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
January 27, 2012





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited **Public Service Commission of the Commonwealth of Puerto Rico (PSC)**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **PSC**'s major federal programs for the fiscal year ended June 30, 2011. **PSC**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **PSC**'s management. Our responsibility is to express an opinion on **PSC**'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **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. Our audit does not provide a legal determination on the **PSC**'s compliance with those requirements.

In our opinion, the **PSC** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

Management of **PSC** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **PSC**'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **PSC**'s internal control over compliance.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the President

Public Service Commission

of the Commonwealth of Puerto Rico

Page 2

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weakness*, as described above.

This report is intended for the information and use of the PSC's management, the Commonwealth of Puerto Rico, the U.S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC

CPA DIAZ-MARTINEZ, PSC

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2013

Caguas, Puerto Rico

January 27, 2012



PART III

FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133? Yes No

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
20.218	Motor Carrier Safety Assistance Program

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

NO MATTER IS REPORTED.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NO MATTER IS REPORTED.

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2008-2009

Finding Number	2009-III-01	Reporting The PSC did not submit on time the quarterly activity report from October 1, 2007 through September 30, 2009.
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CFDA Number	20.218
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Questioned Cost	None
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Auditee Comments	The US Department of Transportation, the cognizant agency hasn't issued the final determination.
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(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE