

COMMONWEALTH PORTS AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

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

Board of Directors
Commonwealth Ports Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2019. Our report was qualified due to our inability to determine the effects of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on CPA's financial statements.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001.

CPA's Response to Findings

CPA's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. CPA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

January 18, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Commonwealth Ports Authority:

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth Ports Authority's (CPA's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CPA's major federal programs for the year ended September 30, 2017. CPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CPA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CPA'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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of CPA's compliance.

Basis for Qualified Opinion on CFDA Program 20.106 Airport Improvement Program

As described in the accompanying Schedule of Findings and Questioned Costs, CPA did not comply with requirements regarding CFDA Program 20.106 Airport Improvement Program as described in item 2017-001 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to that program.

Qualified Opinion on CFDA Program 20.106 Airport Improvement Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CPA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA Program 20.106 Airport Improvement Program for the year ended September 30, 2017.

Unmodified Opinion on CFDA Program 15.875 Economic, Social, and Political Development of the Territories

In our opinion, CPA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA Program 15.875 Economic, Social, and Political Development of the Territories for the year ended September 30, 2017.

Other Matters

CPA's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. CPA'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 CPA 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 CPA'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 CPA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a material weakness.

CPA's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. CPA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of CPA as of and for the year ended September 30, 2017, and have issued our report thereon dated January 18, 2019, which contained a qualified opinion on those financial statements due to our inability to determine the effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* on CPA's financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLC

January 18, 2019

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Other Identification Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of the Interior Pass-Through Program From: CNMI Government - Economic, Social, and Political Development of the Territories - Tinian Terminal Improvement	15.875		D12AP00022-BU5629 D12AP00095-BU5629A	\$ 1,658,084
<i>Total U.S. Department of the Interior</i>				\$ 1,658,084
U.S. Department of Transportation Direct Program Airport Improvement Program	20.106			\$ 3,960,730
<i>Total U.S. Department of Transportation</i>				\$ 3,960,730
U.S. Department of Homeland Security Direct Programs National Explosives Detection Canine Team Program (NEDCTP)	97.072			\$ 133,948
TSA Recapitalization Program	97.U01	HSTS04-17-H-CT1012		305,009
Saipan International Airport - Reimbursement Agreement	97.U02	HSTS0208HSLR157		<u>86,413</u>
Subtotal U.S. Department of Homeland Security Direct Programs				525,370
U.S. Department of Homeland Security Pass-Through From: CNMI Government - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		FEMA-4235-DR-MP	<u>228,123</u>
<i>Total U.S. Department of Homeland Security</i>				<u>753,493</u>
Total Expenditures of Federal Awards				<u>\$ 6,372,307</u>
Reconciliation:				
Expenditures per Statement of Revenues, Expenses and Changes in Net Position:				
Capital contributions				\$ 6,497,837
Contribution from the CNMI (Marianas Visitors Authority)				(345,500)
Prior year advertising expense recorded in the current year				(391)
Other grant revenues and contributions				<u>220,361</u>
				<u>\$ 6,372,307</u>

See accompanying notes to the schedule of expenditures of federal awards.

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Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2017

(1) Scope of Audit

CPA was established as a public corporation by the CNMI by Public Law 2-48, effective November 8, 1981. All significant operations of CPA are included in the scope of the Single Audit. The U.S. Department of the Interior's Office of the Inspector General has been designated as CPA's cognizant agency for the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of CPA under programs of the federal government for the year ended September 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 CPA, it is not intended to and does not present the financial position, changes in net position or cash flows of CPA.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. CPA does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

b. Matching Requirements

In allocating project expenditures between the federal share and the local share, a percentage is used based upon local matching requirements, unless funds are specifically identified to a certain phase of the project.

COMMONWEALTH PORTS AUTHORITY
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|--|-----------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|---|------------|
| Internal control over major federal programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | No |
| 7. Type of auditors' report issued on compliance for major federal programs: | |
| CFDA Number 15.875 | Unmodified |
| CFDA Number 20.106 | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. Identification of major federal program: | |
| <u>CFDA Numbers</u> <u>Name of Federal Program</u> | |
| 15.875 Economic, Social, and Political Development of the Territories | |
| 20.106 Airport Improvement Program | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Finding</u>
2017-001	Equipment and Real Property Management

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2017-001	20.106	Equipment and Real Property Management	\$ -

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a State must use, manage and dispose of equipment acquired under a Federal award by the State in accordance with State laws and procedures.

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the federal award identification number), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal of the property;
- (2) A physical inventory of the property must be taken and the results reconciled with the property records annually; and
- (3) A control system must be developed to confirm adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.

Condition: Tests of equipment and real property noted the following:

1. CPA performed a capital assets inventory during fiscal year 2017; however, a reconciliation was not performed. Total fixed asset additions capitalized and related to CPA's major program amounted to \$596,050, \$3,560,235 and \$-0- during fiscal years 2017, 2016 and 2015, respectively.

Of sixty items tested, we noted deficiencies, as follows:

2. We were unable to determine whether four (or 6%) were FAA-funded as the capital asset subledger lacks sufficient description to identify the location and condition:

FAA Grant No.	General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
Not available	1510-311	000019	TERMINAL BLDG (EDA) - TIQ	03/01/82	\$ 696,000	\$ -
Not available	1510-311	000874	Tinian Terminal Building - C	10/01/08	\$ 3,845,462	\$ 2,115,004
Not available	1520-311	000870	West Tinian Airport Phase 1 - C	10/01/08	\$ 8,828,870	\$ 5,703,241
Not available	1520-211	000883	Rota Charter Flight	10/01/08	\$ 465,934	\$ 186,374

3. We were unable to determine the existence of four (or 6%) as the capital asset subledger lacks sufficient description to identify the location and condition:

FAA Grant No.	General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
Not available	1530-111	000518	CONTROL TOWER EQUIPMENT	10/01/98	\$ 1,462,180	\$ -
Not available	1510-111	000025	Generator - SPN	04/01/87	\$ 1,419,119	\$ -
Not available	1510-111	000094	Security Access Control System	10/01/97	\$ 1,134,655	\$ -
Not available	1570-111	000660	Security Access	10/01/04	\$ 2,371,271	\$ -

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Condition, Continued:

4. Two items (or 3%) could not be verified whether regular maintenance and upkeep were being performed.

FAA Grant No.	General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
3-69-0002-57/59/61	1510-111	001031	STANBY GENERATOR & POWER UGRADE	03/01/13	\$ 7,198,206	\$ 3,899,028
3-69-0002-80	1550-111	001206	Runway Sweeper	09/01/16	\$ 340,840	\$ 288,091

5. One item (or 2%) included a total quantity of three assets; however, this description, in addition to its location and serial numbers, were not included in the fixed asset detailed report.

FAA Grant No.	General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
3-69-0002-57/59/61	1510-111	001031	STANBY GENERATOR & POWER UGRADE	03/01/13	\$ 7,198,206	\$ 3,899,028

6. Six items (or 10%) were not tagged to indicate they were federally funded. Further, the serial number or the vehicle identification number (VIN) was not documented in the entity's records, except for System Nos. 001168 and 001202. Moreover, System No. 001206 lacked a government license plate.

FAA Grant No.	General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
3-69-0002-34	1590-111	000594	3000 GALLON ARFF TRUCK	09/30/02	\$ 629,591	\$ -
3-69-0002-76	1590-111	001168	1,500 GALLON ARFF TRUCK	05/01/16	\$ 619,010	\$ 531,317
Not available	1590-211	000733	Rota ARFF Truck	10/01/05	\$ 644,452	\$ 1
Not available	1590-111	000808	ARFF Truck	10/01/07	\$ 594,773	\$ 4,956
3-69-0002-80	1550-111	001206	RUNWAY SWEEPER	09/01/16	\$ 340,840	\$ 288,091
3-69-0002-85	1590-111	001202	1500 GALLON ARFF TRUCK	09/01/16	\$ 629,956	\$ 561,711

7. One disposed item (or 2%) was included in the current fixed assets listing.

FAA Grant No.	General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
Not available	1590-111	000083	ARFF VEHICLE (3000)	04/01/97	\$ 484,369	\$ -

8. Federally-funded FAA assets could not be easily differentiated from other federally-funded non-FAA assets in the entity's schedule.

Cause: The cause of the above condition is the lack of controls such as oversight responsibility and monitoring to comply with equipment management requirements.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.:	2017-001, Continued
Federal Agency:	U.S. Department of Transportation
CFDA Program:	20.106 Airport Improvement Program
Area:	Equipment and Real Property Management
Questioned Costs:	\$-0-

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned costs exist for the conditions as we are aware that the assets exist for some and that the net book value is zero for the others.

Recommendation: We recommend that CPA adhere to property management requirements such as performing monitoring activities to ascertain that the results of the annual physical inventory reconcile to the property records and that sufficient details are included in the capital assets subledger to specifically identify individual assets.

Identification as a Repeat Finding: Finding 2016-001.

Views of Auditee and Corrective Action Plan:

CPA describes corrective action in the Corrective Action Plan.



COMMONWEALTH PORTS AUTHORITY

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Corrective Action Plan Year Ended September 30, 2017

Finding No.: 2017-001
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Person: Skye Lynn L. Aldan Hofschneider, Comptroller

Corrective Action:

Condition 1: CPA is continuing physical inventory efforts into FY 2018 and anticipates proposed adjustments to update/reconcile results to the property records. Some adjustments to reconcile the fixed asset sub ledger to the general ledger were completed in fiscal year 2017 for both the Airports and the Seaports. CPA recognizes that these adjustments only partially address this finding in that not all inventory items were reconciled to the general ledger.

Condition 2, 3 and 5: CPA has implemented additional requirements for entering capital assets into its fixed asset system. For each asset entered, CPA includes the serial number, VIN number, or other identification number and the specific location within the CPA premises. Although this will resolve the identification issue moving forward, CPA notes that the assets entered into the system previously still lack sufficient detail to be properly identified. As assets in the system are identified to its matching physical asset, CPA Accounting goes into the system to modify the existing information to include detailed identifying features.

Condition 4: CPA will create and maintain maintenance log sheets for federally procured items.

Condition 6: CPA will tag all vehicles procured with federal funds to indicate they were federally funded. Additionally, CPA will ensure that government license plates are obtained for all motor vehicles.

Condition 7: The asset has been removed from the fixed asset listing.

Condition 8: CPA is working towards including the grant numbers in the fixed asset schedule to be able to identify and differentiate each federally funded asset.

Proposed Completion Date: Ongoing