



COMMONWEALTH PORTS AUTHORITY

REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE
PASSENGER FACILITY CHARGE PROGRAM

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER COMPLIANCE
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND COMPLIANCE
AND OTHER MATTERS AND ON THE SCHEDULE OF PASSENGER FACILITY CHARGES

Board of Directors
Commonwealth Ports Authority:

Compliance

We have audited the compliance of the Commonwealth Ports Authority (CPA) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide), for its passenger facility charge program for the year ended September 30, 2006. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program is the responsibility of CPA's management. Our responsibility is to express an opinion on CPA'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 the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge 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 opinion. Our audit does not provide a legal determination of CPA's compliance with those requirements.

As described in items 2006-1 and 2006-4 in the accompanying Schedule of Findings, CPA did not comply with requirements regarding project cost allowability and reporting. Compliance with such requirements is necessary, in our opinion, for CPA to comply with requirements applicable to the passenger facility charge program.

In our opinion, except for the noncompliance described in the preceding paragraph, CPA complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended September 30, 2006. However, the results of our audit procedures disclosed instances of noncompliance which are required to be reported in accordance with the Guide and which are described in the accompanying Schedule of Findings as items 2006-2 and 2006-3.

Internal Control Over Compliance

The management of CPA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program. In planning and performing our audit, we considered CPA's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to the passenger facility charge program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Passenger Facility Charges

We have audited the basic financial statements of CPA as of and for the year ended September 30, 2006, and have issued our report thereon dated January 11, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Passenger Facility Charges is presented for purposes of additional analysis as specified in the Guide and is not a required part of the basic financial statements. This schedule is the responsibility of the management of CPA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

November 7, 2008

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Schedule of Passenger Facility Charges
Year Ended September 30, 2006

	Date Originally Approved	Original Amount Approved	Beginning Cumulative Total (As Restated)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Ending Cumulative Total
Receipts		\$ -	\$ 1,335,183	\$ 569,717	\$ 596,947	\$ 577,164	\$ 572,063	\$ 2,315,891	\$ 3,651,074
Project expenditures:									
Electrical Upgrade/Generator	10/15/04	4,598,526	4,598,526	-	-	-	-	-	4,598,526
Conversion of Restaurant to Holding Room	10/15/04	715,320	715,320	-	-	-	-	-	715,320
Sewerline Connection	10/15/04	5,160,701	5,160,701	-	-	-	-	-	5,160,701
Enclosure and Air Cond of Corridor	10/15/04	2,153,232	2,153,232	-	-	-	-	-	2,153,232
Environmental Assessment/Hardstand	10/15/04	4,360	2,731	-	-	-	-	-	2,731
Connecting Taxiway	10/15/04	428,666	268,515	-	-	-	-	-	268,515
Storm Drainage Master Plan Study	10/15/04	7,473	7,473	-	-	-	-	-	7,473
Parallel Taxiway	10/15/04	244,379	244,379	-	-	-	-	-	244,379
Aircraft Waste Disposal	10/15/04	802,990	802,990	-	-	-	-	-	802,990
Perimeter Fencing	10/15/04	439,380	427,873	-	-	-	-	-	427,873
New ARFF Vehicle	10/15/04	208,777	130,777	-	-	-	-	-	130,777
Environmental Assessment	10/15/04	66,916	66,916	-	-	-	-	-	66,916
Flight Information Display	10/15/04	1,338,317	-	-	-	-	-	-	-
Radio Communication Upgrade	10/15/04	535,327	-	-	-	-	-	-	-
Runway 7/25 Rehab Phase I & II	10/15/04	1,731,800	116,437	1,872	1,287	2,634	1,350	7,143	123,580
ARFF Training Facility (Burn Pit)	10/15/04	497,417	396,941	70,541	-	-	-	70,541	467,482
Noise Mitigation	10/15/04	89,608	1,430	-	-	-	1,586	1,586	3,016
Airport Security Enhancement	10/15/04	887,828	301,794	38,927	55,337	216,813	274,957	586,034	887,828
ARFF Training Facility (Classroom)	10/15/04	81,156	81,156	-	-	-	-	-	81,156
Airport Terminal Roof Replacement	10/15/04	410,000	410,000	-	-	-	-	-	410,000
Airport Runway Safety Area Improvement	10/15/04	400,000	1,704	-	13,302	14,817	3,923	32,042	33,746
PFC Implementation and Administration	10/15/04	47,200	-	-	-	-	47,200	47,200	47,200
Terminal Modernization Program	10/15/04	3,240,000	-	-	-	-	-	-	-
Apron Expansion	10/15/04	1,286,206	1,286,206	-	-	-	-	-	1,286,206
Air Conditioning Arrival Area	10/15/04	2,547,285	2,547,285	-	-	-	-	-	2,547,285
Runway/Taxiway/Apron	10/15/04	2,591,500	184,747	-	-	-	-	-	184,747
Rota Airport Visual Guidance System	10/15/04	1,265,881	9,447	-	-	-	-	-	9,447
Rota Runway Environmental	10/15/04	5,446	5,446	-	-	-	-	-	5,446
Tinian Runway Improv. Project	10/15/04	1,107,684	1,107,684	-	-	-	-	-	1,107,684
Tinian ARFF Truck	10/15/04	119,173	99,398	-	-	-	-	-	99,398
Total expenditures		33,012,548	21,129,108	111,340	69,926	234,264	329,016	744,546	21,873,654
Interest and investment income		-	669	1,228	1,130	1,472	1,234	5,064	5,733
Balance at September 30, 2006									<u>\$(18,216,847)</u>

See accompanying notes to schedule of passenger facility charges.

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Notes to Schedule of Passenger Facility Charges Year Ended September 30, 2006

(1) Schedule of Passenger Facility Charges (PFC's)

On October 15, 2004, the Federal Aviation Administration (FAA) approved the Commonwealth Ports Authority's (CPA) application to impose and collect passenger facility charges of \$4.50 per passenger at the Francisco C. Ada Saipan International Airport (GSN), Rota International Airport (GRO) and Tinian International Airport (TNI) for use either immediately or in the future for specifically approved airport improvement projects. The FAA has approved total PFC collections of \$33,442,548 representing thirty-one projects and the use of PFC collections totaling \$33,012,548 on thirty projects consisting of twenty-three, five and two at GSN, GRO and TNI, respectively. Effective January 1, 2005, the PFC was implemented.

(2) Basis of Presentation

The Schedule of Passenger Facility Charges includes the passenger facility charge program activity of the Commonwealth Ports Authority and is prepared using the cash basis of accounting. Receipts and income are recorded when cash is received and expenditures are recorded when cash is disbursed.

(3) Restatement

During the year ended September 30, 2006, Commonwealth Ports Authority determined that the Passenger Facility Charges for the Tinian Runway Improvement Project at September 30, 2005 was understated by \$1,107,684.

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Schedule of Findings Year Ended September 30, 2006

Passenger Facility Charge Expenditures/Reimbursements

Finding No. 2006-1

Criteria: Passenger Facility Charge (PFC) reimbursements should be applied to qualifying expenditures and approved projects. In addition, the Airport Improvement Program grant funded projects are not eligible for PFC reimbursements.

Condition: Of total PFC's collected of \$2,315,891 during the year ended September 30, 2006, disbursements/reimbursements of \$2,304,540 were tested and the following exceptions were noted:

- A PFC reimbursement of \$93,682 was applied to two projects, Radio Communication Upgrade and Flight Information Display, for which funding was subsequently reprogrammed to fund other projects. At September 30, 2006, cumulative PFC reimbursements on the two projects amounted to \$187,364.
- The Rota Runway/Taxiway/Apron project, totaling \$3,158,632 at September 30, 2006 was initially budgeted to be financed with the proceeds of the 1998 Senior Series A Bonds. The project subsequently received 100% funding from two grantors and the local government. The related interest cost and amount of PFC reimbursement applied during the year amounted to \$184,747 and \$129,575, respectively. The amount of PFC applied during the year exceeded the eligible amount by \$74,403. The total PFC approved for reimbursement totaled \$2,591,500.

Cause: The causes of the above conditions are as follows:

- Projects originally budgeted and planned have been cancelled and the related funding reprogrammed to other projects.
- The inclusion of a grantor funded project in the initial PFC application.
- Project costs are not closely monitored.

Effect: The effect of the above conditions is the application of PFC reimbursements to cancelled projects and the misstatement of project expenditures. In addition, a PFC reimbursement was applied to a project in excess of the eligible amount.

Recommendation: We recommend CPA review the approved PFC projects to ensure all PFC reimbursements are applied to valid qualifying project expenditures. We also recommend CPA review its PFC approved projects to ensure the exclusion of projects that are 100% funded by a grantor and amend its PFC application in the event such projects are included.

Prior Year Status: The application of PFC reimbursement to cancelled projects and the misstatement of expenditures was reported as a finding in the PFC audit for fiscal year 2005.

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Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-1, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. Due to the financial condition of CPA, the Radio Communication and Flight Information Display has been deferred to future projects.

Proposed Completion Date: FY 2009

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Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-2

Criteria: In accordance with Section 158.65 of 14 CFR Part 158, each carrier collecting Passenger Facility Charges (PFC's) for a public agency shall file quarterly reports to the public agency providing an accounting of funds collected and funds remitted. The report shall be filed on or before the last day of the calendar month following the calendar quarter or other period agreed by the collecting carrier and public agency for which funds were collected.

Condition: During the year ended September 30, 2006, the following number of carriers either submitted an incomplete quarterly report or did not submit a report:

<u>Airport</u>	<u>No. of Carriers</u>	<u>Incomplete</u>	<u>No Report</u>
Saipan	23	11	9
Rota	6	1	5
Tinian	<u>2</u>	<u>-</u>	<u>2</u>
	<u>31</u>	<u>12</u>	<u>16</u>

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.65 of 14 CFR Part 158.

Recommendation: We recommend CPA follow-up with air carriers to ensure quarterly reports are received in accordance with Section 158.65 of 14 CFR Part 158.

Prior Year Status: Noncompliance with Section 158.65 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2005.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will ensure that all air carriers submit a quarterly report as per section 158.65 of 14 CFR Part 158. CPA will also include this section in CPA's quarterly (PFC) report to the airlines.

Proposed Completion Date: FY 2009

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Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-3

Criteria: In accordance with Section 158.51 of 14 CFR Part 158, PFC collected by the carrier shall be remitted to the public agency no later than the last day of the calendar month following the month in which the PFC was collected.

Condition: During the year ended September 30, 2006, twenty-one air carriers remitted collections to CPA one or more months following the month in which the PFC collections were collected. In addition, PFC remitted by ten carriers did not include a description/information as to what period the collections relate to. A summary is as follows:

<u>Airport</u>	<u>No. of Carriers</u>	<u>Time Lag in Collections</u>	<u>Information Not Available</u>
Saipan	23	19	4
Rota	6	1	5
Tinian	<u>2</u>	<u>1</u>	<u>1</u>
	<u>31</u>	<u>21</u>	<u>10</u>

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.51 of 14 CFR Part 158.

Recommendation: We recommend CPA establish follow-up procedures with air carriers to ensure PFC collections are remitted on a timely basis and ensure compliance with Section 158.51 of 14 CFR Part 158.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will ensure that all air carrier submit a full description on their payment to include collection period as per section 158.51 of 14 CFR Part 158.

Proposed Completion Date: FY 2009

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Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-4

Criteria: In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFC's for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFC's received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFC's received, interest earned, expenditures, and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project; and the current project schedule.

Condition: The expenditures reported on the quarterly reports submitted by CPA represent the allocation of PFC's received and applied to approved projects.

Cause: The cause of the above condition is a lack of understanding of PFC reporting requirements.

Effect: The effect of the above condition is noncompliance with the requirements of Section 158.63 of 14 CFR Part 158.

Recommendation: We recommend CPA ensure that the reporting requirements of Section 158.63 of 14 CFR Part 158 are adhered to.

Prior Year Status: Noncompliance with Section 158.63 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2005.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will revise the expenditure report to comply with PFC Section 158.63 of 14 CFR Part 158.

Proposed Completion Date: FY 2009