

COMMONWEALTH PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED

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), that are applicable to its passenger facility charge (PFC) program for the year ended September 30, 2007. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its PFC 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 PFC 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 on CPA's compliance with those requirements.

As described in items 2007-001 through 2007-004 in the accompanying Schedule of Findings (pages 6 through 10), CPA did not comply with requirements regarding project cost allowability and special notification and reporting. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to its PFC 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 PFC program for the year ended September 30, 2007.

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 PFC program. In planning and performing our audit, we considered CPA's internal control over compliance with the requirements that could have a direct and material effect on the PFC program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in CPA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A *control deficiency* in CPA's internal control over compliance 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 noncompliance with a compliance requirement of the PFC program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects CPA's ability to administer the PFC program such that there is more than a remote likelihood that noncompliance with a compliance requirement of the PFC program that is more than inconsequential will not be prevented or detected by CPA's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items 2007-001 through 2007-004 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a compliance requirement of the PFC program will not be prevented or detected in CPA's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings, we consider items 2007-001 through 2007-004 to be material weaknesses.

Schedule of Passenger Facility Charges Collected and Expended

We have audited the financial statements of CPA as of and for the year ended September 30, 2007, and have issued our report thereon dated August 5, 2008. Our audit was performed for the purpose of forming our opinion on CPA's basic financial statements. The accompanying Schedule of Passenger Facility Charges Collected and Expended (page 4) 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.

CPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit CPA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Directors of CPA 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

October 16, 2015

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Schedule of Passenger Facility Charges Collected and Expended
Each Quarter and Year Ended September 30, 2007

	Date Originally Approved	Original Amount Approved	Beginning Cumulative Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Ending Cumulative Total
Receipts		\$ -	\$ 3,651,074	\$ 538,695	\$ 472,258	\$ 464,873	\$ 465,471	\$ 1,941,297	\$ 5,592,371
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	123,580	-	-	102,547	206,771	309,318	432,898
ARFF Training Facility (Burn Pit)	10/15/04	497,417	467,482	-	-	-	-	-	467,482
Noise Mitigation	10/15/04	89,608	3,016	345	-	-	-	345	3,361
Airport Security Enhancement	10/15/04	887,828	887,828	-	-	-	-	-	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	33,746	-	-	-	289,435	289,435	323,181
PFC Implementation and Administration	10/15/04	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	21,873,654	345	-	102,547	496,206	599,098	22,472,752
Interest and investment income		-	5,733	1,754	1,962	1,965	2,302	7,983	13,716
Balance at September 30, 2007									<u>\$ (16,866,665)</u>

See accompanying notes to schedule of passenger facility charges collected and expended.

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Notes to Schedule of Passenger Facility Charges Collected and Expended Year Ended September 30, 2007

(1) Schedule of Passenger Facility Charges Collected and Expended

On October 15, 2004, the Federal Aviation Administration (FAA) approved the Commonwealth Ports Authority's (CPA) application to impose and collect passenger facility charges (PFC) 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. The FAA has authorized the imposition of PFC totaling \$430,000 for one project at GRO. CPA is required to submit an application to use these collections no later than three years after the charge effective date. Effective January 1, 2005, the PFC was implemented.

(2) Basis of Presentation

The Schedule of Passenger Facility Charges Collected and Expended includes the passenger facility charge program activity of CPA 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) Subsequent Event

On January 13, 2010, FAA approved CPA's first amendment application to delete the impose only project totaling \$387,000, \$21,500 and \$21,500 at the GSN, GRO and TNI airports, respectively. On December 16, 2010, FAA approved a second amendment increasing the impose and use authority for one project by \$39,600, \$2,200 and \$2,200 at the GSN, GRO and TNI airports, respectively.

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Schedule of Findings
Year Ended September 30, 2007

Project Cost Allowability

Finding No. 2007-001

Criteria: PFC reimbursements should be applied to qualifying expenditures and approved projects. In addition, the FAA's final agency decision for CPA dated October 14, 2004 states that the proposed PFC funding is intended to be the local matching share of Airport Improvement Project grants.

Condition: During the year ended September 30, 2007, CPA reported historical project reimbursements of \$1,949,280 on the Schedule of Passenger Facility Charges Collected and Expended as qualifying expenditures. The total reimbursement is equal to the total PFC and interest earned during the year. The schedule was subsequently corrected to report qualifying PFC expenditures of \$599,098. We tested 100% of the \$1,949,280 reimbursement and noted the following exceptions:

- Projects subsequently 100% funded by a grantor received PFC reimbursement during the year ended September 30, 2007 as follows:

<u>Project</u>	<u>Approved PFC</u>	<u>Actual Project Cost Per CPA Records</u>	<u>Amount Eligible for Reimbursement (CPA Share)</u>	<u>Total Reimbursed as of 09/30/07</u>	<u>Variance</u>
Connecting Taxiway	\$ 428,666	\$ 786,039	\$ -	\$ 428,666	\$ 428,666
New ARFF Vehicle	\$ 208,777	\$ 629,591	\$ -	\$ 208,777	\$ 208,777

- A PFC reimbursement of \$395,442 was applied during the year to the Perimeter Fencing project. The project was completed and placed in service on October 1, 2005 at a total cost of \$1,526,475 of which \$152,647 was funded by CPA and eligible for PFC reimbursement. At September 30, 2007, the total PFC reimbursement applied to the project amounted to \$439,380, exceeding the amount eligible for PFC reimbursement by \$286,733.

<u>Approved PFC</u>	<u>Actual Project Cost Per CPA Records</u>	<u>Amount Eligible for PFC Reimbursement (CPA Share)</u>	<u>Total Reimbursed as of 09/30/07</u>	<u>Variance</u>
\$ 439,380	\$ 1,526,476	\$ 152,647	\$ 439,380	\$ (286,733)

Cause: The causes of the above conditions are:

- the inclusion of grantor funded projects in the initial PFC application; and
- the lack of monitoring project costs.

Effect: The effect of the above condition is the application of PFC reimbursement to projects in excess of the eligible amounts.

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.

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Schedule of Findings, Continued
Year Ended September 30, 2007

Finding No. 2007-001, Continued

Prior Year Status: The inclusion of grantor funded projects in the initial PFC application and the lack of monitoring project costs were reported as a finding in the PFC audits for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA agrees with this finding. CPA will review all PFC approved projects to distinguish which projects are qualified for reimbursement. Once the review is completed, CPA will submit an amendment to the FAA for removal of unqualified and cancelled projects.

Proposed Completion Date: Ongoing

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Schedule of Findings, Continued
Year Ended September 30, 2007

Special Notification and Reporting

Finding No. 2007-002

Criteria: In accordance with Section 158.65 of 14 CFR Part 158, each carrier collecting PFCs 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, 2007, 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	21	16	4
Rota	5	2	2
Tinian	<u>1</u>	<u>1</u>	<u>0</u>
	<u>27</u>	<u>19</u>	<u>6</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 audits for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA acknowledges this finding. CPA is currently working towards conducting monthly follow-up communications with air carriers regarding PFC quarterly reports. CPA will review quarterly reports submitted and will follow-up with carriers who have not submitted.

Proposed Completion Date: Ongoing

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Schedule of Findings, Continued
Year Ended September 30, 2007

Special Notification and Reporting

Finding No. 2007-003

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, 2007, twenty-two 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 five 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	21	19	2
Rota	5	2	3
Tinian	<u>1</u>	<u>1</u>	<u>-</u>
	<u>27</u>	<u>22</u>	<u>5</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.

Prior Year Status: The lack of follow-up by CPA to ensure PFC collections are remitted on a timely basis and to ensure compliance with Section 158.51 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA agrees with this finding. In regards to airlines with direct flights to the CNMI, CPA will initiate monthly correspondence with air carriers to work towards PFC payments being submitted in a timely manner in accordance with Section 158.51 of 14 CFR Part 158. In dealing with airlines that do not have direct flights to the CNMI, it is difficult to determine which air carriers owe PFCs and the amount due. The transitioning of flights is not recorded by CPA; therefore, CPA depends on quarterly reports from various airlines to determine the amount to be paid, if at all. Once these quarterly reports are received, CPA will move towards opening up communications with air carriers if payment had not been submitted.

Additionally, once the Accounting Department receives a PFC payment, it is reconciled by the Accounts Receivable division. The payment is entered to record the amount received, date received and the period the collection applies to.

Proposed Completion Date: Ongoing

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Schedule of Findings, Continued
Year Ended September 30, 2007

Special Notification and Reporting

Finding No. 2007-004

Criteria: In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFC for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFC received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFC 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. The report must be provided on or before the last day of the calendar month following the calendar quarter or other period agreed by the public agency and collecting carrier.

Condition: The expenditures reported on the quarterly reports submitted by CPA represent the allocation of prior expenditures applied to approved projects. This allocation of prior expenditures is made to equal PFCs received during the quarter. In addition, the quarterly reports for the quarters ended December 2006 and March 2007 were submitted eight days and one day, respectively, after the due date.

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 audits for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: On October 2010, CPA hired a consultant to assist in bringing CPA's PFC reporting status up to date. The consultant provided CPA with a PFC disbursement schedule that listed actual and projected amounts to be disbursed/expended by quarter for historical projects. CPA updated and entered the actual and projected amounts into the System of Airports Reporting (SOAR) database until CY 2011. The actual expenditures being disbursed were not included in the projected amounts being entered into the SOAR database. CPA then stopped entering in order to reconcile the PFC actual expenditures before entering them into the database. PFC expenditures are currently being reconciled for FY 2009 to the current fiscal year.

Furthermore, the FAA issued a memorandum dated June 3, 2010, "PFC Update, PFC 63-10", which states that "airports that regularly enter quarterly information into the database will no longer be required to distribute their quarterly reports to any carrier in any manner beginning June 21." CPA is up to date on the collections side and has been entering all PFC collections on a quarterly basis.

Proposed Completion Date: Ongoing



COMMONWEALTH PORTS AUTHORITY

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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings for the year ended September 30, 2006:

Finding No. 2006-1 - See corrective action plan to Finding No. 2007-001.

Finding No. 2006-2 - See corrective action plan to Finding No. 2007-002.

Finding No. 2006-3 - See corrective action plan to Finding No. 2007-003.

Finding No. 2006-4 - See corrective action plan to Finding No. 2007-004.

Finding No. 2005-1 - See corrective action plan to Finding No. 2007-001.

Finding No. 2005-2 - See corrective action plan to Finding No. 2007-002.

Finding No. 2005-3 - See corrective action plan to Finding No. 2007-004.