

COMMONWEALTH PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2009

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, 2009. 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 2009-001 through 2009-008 in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 17), CPA did not comply with requirements regarding project cost allowability, special notification and reporting and additional program requirements. 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, 2009.

## 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 others that we consider to be 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 and Questioned Costs as items 2009-001 through 2009-008 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 and Questioned Costs, we consider items 2009-001 through 2009-008 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, 2009, and have issued our report thereon dated August 25, 2010. 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 and Questioned Costs. 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*

January 5, 2016

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Schedule of Passenger Facility Charges Collected and Expended  
Each Quarter and Year Ended September 30, 2009

	Date Originally Approved	Original Amount Approved	Beginning Cumulative Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Ending Cumulative Total
Receipts		\$ -	\$ 7,703,574	\$ 441,944	\$ 456,777	\$ 477,176	\$ 484,887	\$ 1,860,784	\$ 9,564,358
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	518,981	17,216	47,427	66,382	14,407	145,432	664,413
ARFF training facility (burn pit)	10/15/04	497,417	467,482	-	-	-	-	-	467,482
Noise mitigation	10/15/04	89,608	3,361	-	-	-	-	-	3,361
Airport security enhancement	10/15/04	887,828	887,828	14,542	27,822	7,498	3,213	53,075	940,903
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	330,224	-	66,000	-	-	66,000	396,224
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	116,613	9,649	11,677	43,463	181,402	366,149
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	22,565,878	148,371	150,898	85,557	61,083	445,909	23,011,787
Interest and investment income		-	20,399	1,181	848	729	800	3,558	23,957
Balance at September 30, 2009									<u>\$(13,423,472)</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, 2009

#### (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. The FAA estimates the PFC collection expiration date to be August 1, 2016 for all airports.

#### (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, the 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, the 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. On June 4, 2015, the FAA approved to change the PFC collection expiration date from August 1, 2016 to June 1, 2021 for all airports.

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

Finding No.: 2009-001  
Area: Project Cost Allowability  
Questioned Costs: \$314,960

Criteria: The use of PFC revenue is limited to the allowable cost of approved projects. As stated in Section 158.13 of 14 CFR Part 158, PFC revenue, including any interest earned after such revenue has been remitted to a public agency, may be used only to finance the allowable costs of approved projects at any airport the public agency controls. In addition, the Federal Aviation Administration'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, 2009, qualifying expenditures on eligible PFC projects amounted to \$445,909. Expenditures totaling \$427,521 were tested and the following were noted:

1. PFC was applied to two items amounting to \$110,782 and \$14,483 (check #s 1766 and 1767, respectively), representing grant funded project expenditures that were subsequently reimbursed by the grantor. We were unable to determine if the PFC account was reimbursed.
2. PFC totaling \$181,402, \$66,000 and \$53,075 were applied to the Rota Runway/Taxiway/Apron, the Runway Safety Area Improvement and the Security Enhancement projects, respectively, for expenditures incurred during the year ended September 30, 2009. The PFC approved projects were completed and placed in service on October 1, 2001, October 1, 2008 and October 1, 2008, respectively, therefore, current year expenditures do not relate to the originally approved projects. Further, the Rota Runway/Taxiway/Apron project was 100% federally funded. Of the \$181,402, \$110,782 has been questioned in Condition 1.

In addition, we examined twenty-four completed PFC approved projects and noted the following:

- Five were 100% funded by a grantor:

<u>Project</u>	<u>Total PFC Authority</u>	<u>Fixed Asset No.</u>	<u>In Service Date Per CPA</u>
ARFF Training Facility (Burn Pit)	\$ 497,417	731	10/01/05
ARFF Training Facility (Classroom)	\$ 81,156	731	10/01/05
Runway/Taxiway/Apron	\$ 2,591,500	572	10/01/01
Connecting Taxiway	\$ 428,666	558	10/01/01
New ARFF Vehicle	\$ 208,777	594	09/30/02

- The PFC authority for eleven were in excess of CPA's actual share of project costs:

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-001, Continued  
Area: Project Cost Allowability  
Questioned Costs: \$314,960

Condition, Continued:

Project	In Service Date Per CPA	Fixed Asset No.	PFC Authority	Project Cost CPA Share	Difference
Conversion of Restaurant to Holding Room	10/01/99	499	\$ 715,320	\$ 569,422	\$ 145,898
Sewerline Connection	09/01/07	807	\$ 5,160,701	\$ 2,538,774	\$ 2,621,927
Enclosure and Air Cond of Corridor	09/30/02	588	\$ 2,153,232	\$ 664,510	\$ 1,488,722
Aircraft Waste Disposal	10/01/04	659	\$ 802,990	\$ 305,099	\$ 497,891
Perimeter Fencing	10/0105	686	\$ 439,380	\$ 152,647	\$ 286,733
Airport Terminal Roof Replacement	10/01/06	750	\$ 410,000	\$ 300,500	\$ 109,500
Airport Runway Safety Area Improvement	10/01/08	878	\$ 400,000	\$ 352,926	\$ 47,074
Apron Expansion	10/01/09	500	\$ 1,286,206	\$ 480,700	\$ 805,506
Air conditioning Arrival Area	09/30/02	590	\$ 2,547,285	\$ 1,063,671	\$ 1,483,614
Rota Airport Visual Guidance System	10/01/05	692	\$ 1,265,881	\$ 9,447	\$ 1,256,434
Tinian ARFF Truck	10/01/04	662	\$ 119,173	\$ 65,917	\$ 53,256

- The actual project costs for seven exceeded the PFC authority:

Project	In Service Date Per CPA	Fixed Asset No.	PFC Authority	Project Cost CPA Share	Difference
Electrical Upgrade/Generator	10/01/97	495	\$ 4,598,526	\$ 4,983,235	\$ (384,709)
Storm Drainage Master Plan Study	10/01/00	538	\$ 7,473	\$ 28,092	\$ (20,619)
Parallel Taxiway	10/01/98	519	\$ 244,379	\$ 388,940	\$ (144,561)
Airport Security Enhancement	10/01/08	876	\$ 887,828	\$ 1,141,434	\$ (253,606)
Rota Runway Environmental	10/01/05	693	\$ 5,446	\$ 22,563	\$ (17,117)
Tinian Runway Improv. Project	10/01/04	654	\$ 1,107,684	\$ 2,214,933	\$ (1,107,249)
Environmental Assessment/Hardstand	10/01/03	640	\$ 4,360	\$ 39,171	\$ (34,811)

- We were unable to determine the actual amounts expended for one project (PFC Implementation and Administration) with a total PFC authority of \$47,200.

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 unallowable expenditures and questioned costs of \$125,265 for Condition 1 and \$189,695 for Condition 2.

Recommendation: We recommend CPA review the approved PFC project costs, the related financing and interest calculations and amend its application to reflect actual project costs incurred. 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 lack of monitoring project costs and inclusion of grant funded projects was reported as a finding in the PFC audits for fiscal years 2005 through 2008.



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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-001, Continued  
Area: Project Cost Allowability  
Questioned Costs: \$314,960

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** 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 or cancelled projects and reflection of actual costs incurred. Furthermore, as CPA completes its review of PFC approved projects and determines the eligibility of initial projects applied for, CPA will allocate the expenditures to qualified projects.

**Proposed Completion Date:** Ongoing

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-002  
Area: Project Cost Allowability  
Questioned Costs: \$-0-

Criteria: In accordance with Section 158.33 of 14 CFR Part 158:

- (a) a public agency shall not impose a PFC beyond the lesser of the following:
- (1) 2 years after approval to use PFC revenue on an approved project if the project has not been implemented, or
  - (2) 5 years after the charge effective date; or
  - (3) 5 years after the FAA's decision on the application (if the charge effective date is more than 60 days after the decision date) if an approved project is not implemented.
- (b) If, in the Administrator's judgment, the public agency has not made sufficient progress toward implementation of an approved project within the times specified in paragraph (a) of this section, the Administrator begins termination proceedings under subpart E of this part.

Condition: Approval to impose and use PFC for the terminal modernization program, environmental assessment, flight information display and radio communication upgrade projects amounting to \$3,240,000, \$66,916, \$1,338,317 and \$535,327, respectively, was authorized in October 2004. To date, the projects have not been implemented. In addition, the Noise Mitigation project, which was approved for PFC funding of \$89,608 and applied prior year expenditures of \$3,361, is not expected to materialize.

Cause: The cause of the above condition is lack of monitoring approved PFC projects.

Effect: The effect of the above condition is the possibility of funding loss and noncompliance with Section 158.33 of 14 CFR Part 158.

Recommendation: We recommend CPA monitor all PFC approved projects for compliance with Section 158.33 of 14 CFR Part 158.

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 or cancelled projects and reflection of actual costs incurred.

**Proposed Completion Date:** Ongoing

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-003  
Area: Special Notification and Reporting  
Questioned Costs: \$-0-

Criteria: In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFCs for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFCs received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFCs 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: During the year ended September 30, 2009, CPA reported quarterly PFC collections and disbursements online via the System of Airports Reporting (SOAR) and the following were noted:

1. CPA did not submit quarterly reports to air carriers collecting PFCs during fiscal year 2009.
2. The total expenditures for fiscal year 2009 reported on SOAR amounted to \$1,520,029. The actual PFC expenditures applied to approved projects amounted to \$445,909 resulting in a difference of \$1,074,120. In addition, cumulative expenditures of \$8,882,919 reported on SOAR are \$14,128,868 less than the actual cumulative expenditures. An explanation of the difference was not provided.
3. The total cumulative revenues and interest reported on SOAR for fiscal year 2009 amounted to \$9,157,885. The actual cumulative revenues and interest amounted to \$9,588,315 resulting in a difference of \$430,430. An explanation of the variance was not provided.

Cause: The cause of the above condition is lack of awareness of program requirements.

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

Recommendation: We recommend CPA comply with requirements of Section 158.63 of 14 CFR Part 158.

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 through 2008.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-003, Continued  
Area: Special Notification and Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** In FY 2015, CPA hired a consultant to assist in reconciling expenditures and bringing the required reporting up to date. PFC expenditures are currently being reconciled for FY 2007 to the current fiscal year. Once the review is completed, CPA will request to amend the data on the expenditure side in SOAR to reflect the correct amounts. CPA is up to date on the collections side and has been entering all PFC collections and interest earned on a quarterly basis.

After a review of the PFC revenue variance listed in Condition 3, CPA noted that the Quarterly Report for September 30, 2009 produced from SOAR for the island of Tinian did not include the cumulative revenues and interest earned. The majority of the variance noted is due to this error in the reporting system.

**Proposed Completion Date:** Ongoing

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-004  
Area: Special Notification and Reporting  
Questioned Costs: \$-0-

Criteria: In accordance with Section 158.65 of 14 CFR Part 158, each carrier collecting PFC 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, 2009, 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/Late</u>	<u>No Report</u>
Saipan	23	4	10
Rota	4	-	4
Tinian	<u>2</u>	<u>-</u>	<u>2</u>
	<u>29</u>	<u>4</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 audits for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** CPA acknowledges this finding. CPA will implement monthly notification to air carriers indicating PFC payments and reports due. CPA will review quarterly reports submitted for completion and will follow up with carriers who do not submit in a timely manner or at all.

**Proposed Completion Date:** FY 2016

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-005  
Area: Special Notification and Reporting  
Questioned Costs: \$-0-

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, 2009, nineteen 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 and/or the information available was incomplete. A summary is as follows:

<u>Airport</u>	<u>No. of Carriers</u>	<u>Time Lag in Collections</u>	<u>Information Not Available/Incomplete</u>
Saipan	23	16	7
Rota	4	2	2
Tinian	<u>2</u>	<u>1</u>	<u>1</u>
	<u>29</u>	<u>19</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 to comply with Section 158.51 of 14 CFR Part 158.

Prior Year Status: The lack of follow-up of PFC remittances and lack of compliance with Section 158.51 of 14 CFR Part 158 was reported as a finding in the PFC audits for fiscal years 2006 through 2008.

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 158.65 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 PFC's and the amount due. The transitioning of flights is not recorded by CPA; therefore CPA depends on the 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.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-005, Continued  
Area: Special Notification and Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

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

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-006  
Area: Additional Program Requirements  
Questioned Costs: \$-0-

Criteria: In accordance with Section 158.67 (b) of 14 CFR Part 158 each public agency shall establish and maintain for each approved application a separate accounting record. The accounting record shall identify the PFC received from the collecting carriers, interest earned, the amounts used on each project, and the amount reserved for currently approved projects.

Condition: During the year ended September 30, 2009, CPA disbursed PFC funds totaling \$2,365,534. Of the total amount, \$445,909 was disbursed to PFC eligible projects. The remaining amount of \$1,919,625 was applied as a reimbursement of historical projects. Although CPA maintains a separate accounting record of PFC revenue received from collecting carriers and interest earned on collections, a separate record of PFC funds used on each approved project, a schedule of amounts reserved for currently approved projects and PFC reimbursements on historical projects are not maintained. We were unable to determine which historical projects were reimbursed during the fiscal year. CPA subsequently prepared a schedule of PFC expenditures; however, there was no evidence of review and approval.

Cause: The cause of the above condition is the lack of maintaining a separate accounting record of PFC projects that are reviewed and approved by management.

Effect: The effect of the above condition is noncompliance with Section 158.67 (b) of 14 CFR Part 158.

Recommendation: We recommend CPA comply with the requirements of Section 158.67 (b) of 14 CFR Part 158.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** CPA will maintain a separate schedule to indicate what approved historical projects PFC expenditures were applied to. This schedule will go through the normal review process to evidence the proper approvals.

**Proposed Completion Date:** Ongoing



COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-007  
Area: Additional Program Requirements  
Questioned Costs: \$-0-

Criteria: In accordance with Section 158.67 (c) of 14 CFR Part 158, at least annually during the period the PFC is collected, held or used, each public agency shall provide for an audit of its PFC account.

Condition: CPA's latest PFC audit report was for fiscal year 2008 with a report date of November 6, 2015.

Cause: The cause of the above condition is the lack of maintaining and accounting for the PFC program.

Effect: The effect of the above condition is noncompliance with Section 158.67 (c) of 14 CFR Part 158.

Recommendation: We recommend CPA comply with Section 158.67 (c) of 14 CFR Part 158.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** CPA has contracted an auditing firm to complete its PFC audits through Fiscal Year 2015. The project is ongoing and is expected to be completed by Fiscal Year 2016.

**Proposed Completion Date:** FY 2016

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-008  
Area: Additional Program Requirements  
Questioned Costs: \$-0-

Criteria: As stated in Section 158.67 (a) of 14 CFR Part 158 each public agency shall keep any unliquidated PFC remitted to it by collecting carriers on deposit in an interest bearing account or in other interest bearing instruments used by the public agency's airport capital fund. Further, PFC may only be commingled with other public agency airport capital funds in deposits or interest bearing instruments.

Condition: A tenant's rental payment of \$3,600 was deposited to the PFC account. In addition, total withdrawals from the PFC bank account during the year were \$7,090 more than total withdrawals accounted for by CPA. We were unable to determine if the excess amount was returned to the PFC bank account.

Cause: The cause of the above condition is the lack of reconciliation of PFC collections and withdrawals.

Effect: The effect of the above condition is noncompliance with Section 158.67 (a) of 14 CFR Part 158.

Recommendation: We recommend management ensure compliance with Section 158.67 (a) of 14 CFR Part 158 and related requirements are adhered to.

Prior Year Status: Noncompliance with Section 158.67(a) of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2008.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** CPA has implemented required monthly bank reconciliations for all CPA bank accounts. A review process is set in place to identify any anomalies and initiate the corrective actions necessary. The monthly bank reconciliations are prepared by the Accounting staff, reviewed by the Accounting Manager and approved by the Comptroller.

**Proposed Completion Date:** Completed

COMMONWEALTH PORTS AUTHORITY

Unresolved Prior Year Comments  
Year Ended September 30, 2009

Questioned Costs

The prior year PFC audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2009:

Questioned costs as previously reported	\$ -
Questioned costs of fiscal year 2009 PFC audit	<u>314,960</u>
Unresolved questioned costs at September 30, 2009	\$ <u><u>314,960</u></u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 6 through 17).



## 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, 2008:

- Finding No. 2008-001 - See corrective action plan to Finding No. 2009-001.
- Finding No. 2008-002 - See corrective action plan to Finding No. 2009-004.
- Finding No. 2008-003 - See corrective action plan to Finding No. 2009-005.
- Finding No. 2008-004 - See corrective action plan to Finding No. 2009-003.
- Finding No. 2008-005 - See corrective action plan to Finding No. 2009-008.
- Finding No. 2007-001 - See corrective action plan to Finding No. 2009-001.
- Finding No. 2007-002 - See corrective action plan to Finding No. 2009-004.
- Finding No. 2007-003 - See corrective action plan to Finding No. 2009-005.
- Finding No. 2007-004 - See corrective action plan to Finding No. 2009-003.
- Finding No. 2006-1 - See corrective action plan to Finding No. 2009-001.
- Finding No. 2006-2 - See corrective action plan to Finding No. 2009-004.
- Finding No. 2006-3 - See corrective action plan to Finding No. 2009-005.
- Finding No. 2006-4 - See corrective action plan to Finding No. 2009-003.
- Finding No. 2005-1 - See corrective action plan to Finding No. 2009-001.
- Finding No. 2005-2 - See corrective action plan to Finding No. 2009-004.
- Finding No. 2005-3 - See corrective action plan to Finding No. 2009-003.