

COMMONWEALTH PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Commonwealth Ports Authority's (CPA) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide) that could have a direct and material effect on CPA's passenger facility charge (PFC) program for the year ended September 30, 2012. 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 of CPA's compliance with those requirements.

As described in items 2012-001 through 2012-005 in the accompanying Schedule of Findings and Questioned Costs (pages 5 through 11), CPA did not comply with requirements regarding project cost allowability, special notification and reporting and additional program requirements that are applicable to its PFC program. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, CPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its PFC program for the year ended September 30, 2012.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 compliance requirement of the PFC program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a compliance requirement of the PFC program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-001 through 2012-005 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, 2012, and have issued our report thereon dated November 20, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on CPA's financial statements. The accompanying Schedule of Passenger Facility Charges Collected and Expended (page 4) is presented for purposes of additional analysis as required by the Guide 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 Passenger Facility Charges Collected and Expended is fairly stated in all material respects in relation to the financial statements 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 the responses.

This report is intended solely for the information and use of management, the Board of Directors 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, 2012

	Date Originally Approved	Original Amount Approved	Beginning Cumulative Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Ending Cumulative Total
Receipts		\$ -	\$ 12,679,507	\$ 310,089	\$ 485,417	\$ 400,026	\$ 445,487	\$ 1,641,019	\$ 14,320,526
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	938,464	1,011	15,869	16,396	-	33,276	971,740
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	943,054	-	-	-	-	-	943,054
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	396,224	-	-	-	-	-	396,224
PFC implementation and administration	10/15/04	91,200	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	600,055	-	-	-	-	-	600,055
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		<u>33,056,548</u>	<u>23,521,895</u>	<u>1,011</u>	<u>15,869</u>	<u>16,396</u>	<u>-</u>	<u>33,276</u>	<u>23,555,171</u>
Interest and investment income		<u>-</u>	<u>30,476</u>	<u>1,022</u>	<u>1,152</u>	<u>1,413</u>	<u>1,544</u>	<u>5,131</u>	<u>35,607</u>
Balance at September 30, 2012									<u>\$ (9,199,038)</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, 2012

(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 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 authorized the imposition of PFC totaling \$430,000 for one project at GRO and required CPA 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 charge collection expiration date to be August 1, 2016 for all airports.

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. At September 30, 2012, the total approved PFC collections amount to \$33,056,548.

(2) Basis of Presentation

The Schedule of Passenger Facility Charges Collected and Expended includes the PFC 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 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, 2012

Finding No.: 2012-001
Area: Project Cost Allowability
Questioned Costs: \$-0-

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.

Condition: The total PFC applied to the Security Enhancement project at September 30, 2012 exceeded the total PFC authority by \$55,226.

Cause: The cause of the above condition is the lack of monitoring project costs.

Effect: The effect of the above condition is unallowable expenditures. The excess expenditures related to the Security Enhancement project have been questioned in PFC audits for fiscal years 2009 and 2010.

Recommendation: We recommend CPA review the approved PFC project costs and comply with the requirements of Section 158.13 of 14 CFR Part 158.

Prior Year Status: The lack of monitoring project costs was reported as a finding in the PFC audits for fiscal years 2005 through 2011.

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

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-002
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, flight information display and radio communication upgrade projects amounting to \$3,240,000, \$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.

Prior Year Status: Noncompliance with Section 158.33 of 14 CFR Part 158 was reported as a finding in the PFC audits for fiscal years 2009 through 2011.

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.

Proposed Completion Date: Ongoing

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-003
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, 2012, CPA reported quarterly PFC collections and disbursements online via the System of Airport Reporting (SOAR) and the following were noted:

1. The total expenditures for fiscal year 2012 reported on SOAR amounted to \$-0-. The actual PFC expenditures applied to approved projects amounted to \$33,276. In addition, cumulative expenditures of \$11,514,425 reported on SOAR are \$12,040,746 less than the actual cumulative expenditures. An explanation of the difference was not provided.
2. The total cumulative revenues and interest reported on SOAR for fiscal year 2012 amounted to \$13,789,419. The actual cumulative revenues and interest amounted to \$14,356,133 resulting in a difference of \$566,714. 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 2011.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-003, 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 and revenues are currently being reconciled for FY 2007 to the current fiscal year. Once the review is completed, CPA will request to amend the data 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 2, CPA noted that the Quarterly Report for September 30, 2012 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

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-004
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, 2012, CPA disbursed PFC funds totaling \$624,767. Of the total amount, \$33,276 was disbursed to PFC eligible projects. The remaining amount of \$591,491 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 conditions is the lack of maintaining a separate accounting record for 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.

Prior Year Status: The lack of maintaining a separate accounting record was reported as a finding in the PFC audits for fiscal years 2009 through 2011.

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

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-005
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.

Prior Year Status: Noncompliance with Section 158.67 (c) of 14 CFR Part 158 was reported as a finding in the PFC audits for fiscal years 2009 through 2011.

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

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Unresolved Prior Year Comments
Year Ended September 30, 2012

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, 2012:

Questioned costs as previously reported	\$ 551,017
Questioned costs of fiscal year 2012 PFC audit	<u>-</u>
Unresolved questioned costs at September 30, 2012	\$ <u>551,017</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 5 through 11).



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, 2011:

- Finding No. 2011-001 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2011-002 - See corrective action plan to Finding No. 2012-002.
- Finding No. 2011-003 - See corrective action plan to Finding No. 2012-003.
- Finding No. 2011-004 - Resolved.
- Finding No. 2011-005 - Resolved.
- Finding No. 2011-006 - See corrective action plan to Finding No. 2012-004.
- Finding No. 2011-007 - See corrective action plan to Finding No. 2012-005.
- Finding No. 2011-008 - Resolved.
- Finding No. 2010-001 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2010-002 - See corrective action plan to Finding No. 2012-002.
- Finding No. 2010-003 - See corrective action plan to Finding No. 2012-003.
- Finding No. 2010-005 - Resolved.
- Finding No. 2010-006 - Resolved.
- Finding No. 2010-007 - See corrective action plan to Finding No. 2012-004.
- Finding No. 2010-008 - See corrective action plan to Finding No. 2012-005.
- Finding No. 2010-009 - Resolved.
- Finding No. 2009-001 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2009-002 - See corrective action plan to Finding No. 2012-002.
- Finding No. 2009-003 - See corrective action plan to Finding No. 2012-003.
- Finding No. 2009-005 - Resolved.
- Finding No. 2009-006 - See corrective action plan to Finding No. 2012-004.
- Finding No. 2009-007 - See corrective action plan to Finding No. 2012-005.
- Finding No. 2009-008 - Resolved.
- Finding No. 2008-001 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2008-003 - Resolved.
- Finding No. 2008-004 - See corrective action plan to Finding No. 2012-003.
- Finding No. 2008-005 - Resolved.
- Finding No. 2007-001 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2007-003 - Resolved.
- Finding No. 2007-004 - See corrective action plan to Finding No. 2012-003.
- Finding No. 2006-1 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2006-3 - Resolved.
- Finding No. 2006-4 - See corrective action plan to Finding No. 2012-003.
- Finding No. 2005-1 - See corrective action plan to Finding No. 2012-001.
- Finding No. 2005-3 - See corrective action plan to Finding No. 2012-003.