

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

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Commonwealth Ports Authority:

We have audited the financial statements of the Commonwealth Ports Authority (CPA) as of and for the year ended September 30, 2009, and have issued our report thereon dated August 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CPA's internal control over financial reporting.

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 17) as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CPA in a separate letter dated August 25, 2010.

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, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLC

August 25, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Commonwealth Ports Authority:

Compliance

We have audited the compliance of the Commonwealth Ports Authority (CPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. CPA's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 17). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CPA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CPA's compliance with those requirements.

As described in items 2009-2 through 2009-4 in the accompanying Schedule of Findings and Questioned Costs, CPA did not comply with requirements regarding allowable costs/cost principles, equipment and real property management and reporting that are applicable to its CFDA # 20.106 Airport Improvement 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 requirements referred to above that are applicable to its major federal 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 federal programs. 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 a major federal 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.

A *control deficiency* in an entity'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 type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-2 through 2009-4 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 type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

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 taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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, others within the entity, federal awarding agencies and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

August 25, 2010

COMMONWEALTH PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Program Title	Federal CFDA Number/ Grantor I.D. No.	Expenditures
<u>U.S. Department of Transportation</u>		
<u>Airport Improvement Program</u>	20.106	
Direct Grants:		
Saipan International Airport - Saipan Rehabilitation Phase I, II, III, IV & V	3-69-0002-31/32/50/53/58	\$ 4,393,939
Saipan International Airport - Saipan Rehabilitation Phase VI (ARRA)	3-69-0002-60	67,432
Saipan International Airport - Security Enhancement Phase I	3-69-0002-38/41/52/55	1,023,519
Saipan International Airport - Airport Runway Safety	3-69-0002-45/49	32,592
Saipan International Airport - ARFF Building Expansion	3-69-0002-54	11,410
Saipan International Airport - Emergency Generator/Procurement/Install	3-69-0002-57/59	2,116,162
Saipan International Airport - Improve Terminal Building	3-69-0002-62	61,577
Rota International Airport - Extended Runway	3-69-0003-19/20	2,424,553
Tinian International Airport - Strengthen Parallel Taxiway - Phase I	3-69-0011-15/17/19/20	989,994
Tinian International Airport - ARFF Building Relocation Phase I	3-69-0011-18	<u>3,629</u>
		<u>11,124,807</u>
<u>Transportation Security Administration</u>		
National Explosives Detection Canine Team Program (NEDCTP)	97.072	150,500
Saipan International Airport - Reimbursement Agreement	HSTS0208HSLR157	<u>54,097</u>
		<u>204,597</u>
<u>U.S. Department of the Interior</u>		
OMIP CNMI-CPA-2007-1 Specialized Equipment/Training	15.875	111,602
OMIP CNMI-CPA-2006-4 2nd Year ARFF Training	15.875	<u>73,112</u>
		<u>184,714</u>
		<u>\$ 11,514,118</u>
Reconciliation:		
Expenditures per Statement of Revenues, Expenses and Changes in Net Assets		\$ 11,726,682
Contributions from the CNMI government		<u>(212,564)</u>
		<u>\$ 11,514,118</u>

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

COMMONWEALTH PORTS AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

(1) Scope of Audit

The Commonwealth Ports Authority (CPA) was established as a public corporation by the Commonwealth of the Northern Mariana Islands (CNMI) by Public Law 2-48, effective November 8, 1981. All significant operations of CPA are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as CPA's cognizant agency for the Single Audit.

All of the programs presented in the Schedule of Expenditures of Federal Awards are subject to the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any federal funds expended in excess of federal funds received are recorded as a receivable from the grantor agency and any federal funds received in excess of federal funds expended are recorded as a payable to the grantor agency.

b. Indirect Cost Allocation

CPA does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for fiscal year 2009. The Federal Aviation Administration programs do allow, upon grantor approval, certain administrative expenses to be charged against the grants.

c. Matching Requirements

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

COMMONWEALTH PORTS AUTHORITY

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

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. | Noncompliance material to the financial statements noted? | None reported |

Federal Awards

- | | | |
|-----|--|---------------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | None reported |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. | CPA's major program was as follows: | |
| | CFDA
<u>Number</u> <u>Federal Program</u> | |
| | 20.106 Airport Improvement Program | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$345,423 |
| 11. | CPA qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2009-1	Internal Controls	10 - 13

COMMONWEALTH PORTS AUTHORITY

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

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2009-2	Allowable Costs/Cost Principles	\$ -	14
2009-3	Equipment and Real Property Management	\$ -	15 - 16
2009-4	Reporting	\$ -	17

COMMONWEALTH PORTS AUTHORITY

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

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Internal Controls

Finding No. 2009-1

Criteria: Proper internal controls are established to mitigate risks associated with the processing and recording of information in the general ledger.

Condition: During the year ended September 30, 2009, the following were noted:

Cash

- The Airport general checking account (GL No. 1010-000) was not reconciled during the fiscal year. At September 30, 2009, the general ledger account balance was (\$16,095) and the bank balance was \$21,263.
- Reconciliations of the Airport (GL No. 1020-000) and Seaport (GL No. 1040-000) payroll accounts were not performed during the fiscal year ended September 30, 2009.
- Management reviews of bank reconciliations prepared are not evidenced.

Receivables from Grantor Agencies

The Airport and Seaport Divisions recorded receivables from grantor agencies of \$3,001,123 and \$58,103, respectively, as of September 30, 2009. Our tests determined that the account balances were not reconciled, monitored or maintained during the fiscal year. Management did not consider variances noted to be material enough to warrant adjustment.

Construction in Progress

Construction in progress accounts (CIP) for the Airport and Seaport Divisions were not properly maintained or reconciled during the year. As a result, numerous audit adjustments were proposed to reconcile the general ledger to the subledger. Although CIP schedules were provided, not all project totals agreed to the general ledger.

Contracts Payable

The Airport Division recorded preliminary contracts payable (GL #2021-000) amounting to \$3,377,311 as of September 30, 2009. The supporting detailed schedule amounted to \$2,594,503, a difference of \$782,808. Proposed audit adjustments resulting from our tests of grant expenses affected contract payable by \$658,364, reducing the variance to \$124,444. Management did not consider the remaining variance material enough to warrant adjustment.

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2009-1, Continued

Condition, Continued:

Accrued Vacation

During the year ended September 30, 2009, accrued vacation payable for both the Airport and Seaport Divisions were not adjusted or reconciled. Upon our request, the accounts were subsequently reconciled and audit adjustments were proposed. The accrued annual leave schedule is maintained manually and requires an update each payperiod.

Payroll

- Of twenty-one payroll items tested, thirteen items had unreconciled variances between the payroll register and general ledger account as follows:

<u>PP #</u>	<u>PPE</u>	<u>Location</u>	<u>Department</u>	<u>Per G/L (Date Posted)</u>	<u>G/L Account No.</u>	<u>Per Register</u>	<u>Per G/L (Amount)</u>	<u>Variance</u>
14	03/28/09	Saipan	ARFF	04/07/09	6751-100	\$ 38,951	\$ 40,588	\$ (1,637)
3	10/25/08	Saipan	Administration	11/03/08	6851-101	\$ 7,655	\$ 7,128	527
8	01/03/09	Saipan	ARFF	01/14/09	6751-100	\$ 42,013	\$ 43,650	(1,637)
14	03/28/09	Saipan	ARFF	04/07/09	6751-100	\$ 38,951	\$ 40,588	(1,637)
14	03/28/09	Saipan	Custodial	04/07/09	6251-100	\$ 14,545	\$ 13,176	1,369
2	10/11/08	Saipan	ARFF	10/21/08	6751-100	\$ 38,734	\$ 40,371	(1,637)
15	04/11/09	Tinian	Ports Police	04/27/09	6951-200	\$ 5,511	\$ 6,671	(1,160)
19	06/06/09	Saipan	Administration	06/15/09	6851-101	\$ 11,734	\$ 9,811	1,923
12	02/28/09	Saipan	Operations	03/11/09	6152-103	\$ 15,379	\$ 15,589	(210)
18	05/23/09	Tinian	ARFF	06/02/09	6751-200	\$ 3,482	\$ 4,932	(1,450)
17	05/09/09	Tinian	Ports Police	05/20/09	6951-200	\$ 4,193	\$ 6,157	(1,964)
15	04/11/09	Saipan	Custodial	04/27/09	6251-100	\$ 14,495	\$ 13,126	1,369
5	11/22/08	Rota	Custodial	12/02/08	6251-300	\$ 2,052	\$ 3,583	(1,531)

\$ (7,675)

- CPA has been assessed a penalty of \$176,378 related to the non-filing of Form 941 Employer's Quarterly Federal Tax Return for fiscal year 2008 and the first and second quarters of fiscal year 2009. CPA received various notices from the Internal Revenue Service but did not act on these notices in a timely manner.

Journal Entries

Our tests of journal entries for the Airport and Seaport Divisions noted the following:

- Many journal entries relate to reclassifications and reversals of posting errors.
- Voided journal entries are not numerically accounted for, resulting in a break in numerical sequence.
- Journal entries are not posted in a timely manner.
- During fiscal year 2009, three individuals were authorized to post journal entries, each utilizing his/her own journal number sequence.

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2009-1, Continued

Condition, Continued:

Grant Expenses

- Variances were noted between expenses reported on the preliminary schedule of expenditures of federal awards (SEFA) and supporting detailed schedules. Numerous audit adjustments were proposed to reconcile the supporting detailed schedules, general ledger and the SEFA.
- Expenses were incurred for one project (CPA-SA-001-08) that was not included in the approved project listing from the U.S. Department of the Interior.

Cause: The cause of the above condition is the lack of adherence to established internal controls related to the processing and recording of information in the general ledger.

Effect: The effect of the above condition is the misstatement of account balances.

Recommendation: We recommend the following:

- All general ledger accounts be reconciled, reviewed and monitored on a timely and monthly basis.
- All accounts recorded in the general ledger are properly reconciled in a timely manner.
- Supporting journal vouchers, disbursement vouchers, invoices, and reconciliations be properly maintained.
- An analysis of the current system's capabilities to alleviate and/or minimize manual journal entries and the use of spreadsheets should be undertaken.
- Journal entry review should be evidenced.
- Journal entries should be utilized in numerical sequence.
- Policies and procedures be established to ensure all payroll related reporting requirements are addressed and penalties avoided.

Prior Year Status: Control weaknesses over cash, receivables from grantor agencies, construction in progress, contracts payable, accrued vacation, payroll, journal entries and grant expenses were reported as a finding in the Single Audit of CPA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2009-1, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CPA has been working towards reconciling general ledger accounts on a monthly basis in fiscal year 2010. In fact, CPA's financial consultant was tasked to assist CPA accounting staff with the proper methods and procedures for reconciling accounts. Progress is slowly coming forth. However, CPA is committed to continue to reach its goal of reconciling accounts on a monthly basis. CPA's financial consultant will continue to assist in this regard.

In terms of maintaining supporting documents, CPA has been addressing this issue in FY 2010 by examining its filing system and ensuring that it is maintained accurately (by proper fiscal year for example) and properly. During the FY 09 audit, efforts were made to correct and update files that were maintained erroneously. These actions prompted further review to determine whether more corrections and updating were needed. Efforts are being made to ensure that all document files are complete (e.g., all documents that require a signature and date, are signed and dated).

CPA is making efforts in FY 2010 to reduce the use of manual journal entries. Moreover, CPA will take steps to reduce the use of external spreadsheets. This will require training from an outside source as most CPA accounting staff are not familiar with every aspect/function of the current accounting system (MAS 90).

Currently, all journal entries must be stamped with evidence (signature/initials) as to who prepared, reviewed and approved the journal voucher. Further, the user who inputs the entry into MAS 90 must be indicated on the journal entry document.

To maintain the sequential issuance of journal vouchers CPA assigns the task to one individual. This individual maintains the numerical sequence used to avoid confusion and duplication, as might happen if multiple individuals had the responsibility. Moreover, only one individual has the responsibility to access and update journal entries in the system.

For payroll reporting requirements, CPA hired a professional firm to assist with the task of preparing required reports, ensuring accuracy, and proper submission. This firm is tasked to ensure that CPA is current in FY 2010. Moreover, CPA management has asked the firm for guidance and training of appropriate CPA staff in order to ensure that all reporting requirements are maintained and complied with in the future.

Proposed Completion Date: All the above-mentioned steps are to be implemented before this fiscal year is over (September 30, 2010).

COMMONWEALTH PORTS AUTHORITY

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

Finding No.: 2009-2
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: AIP Nos. 3-69-0002-57 and 3-69-0002-59
Federal Award Periods Ended: 06/12/10 and 09/01/13
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: Construction projects funded by federal grants are required to include the Buy American clause within the contract.

Condition: Our tests of project specifications and notice to bidders for the Emergency Generator project did not note the inclusion of the Buy American clause.

Cause: The cause of the above condition is the lack of controls to ensure compliance with federal contract requirements.

Effect: The effect of the above condition is lack of compliance with grant requirements. No questioned costs result as the contractor adhered to requirements of the Buy American clause.

Recommendation: We recommend management ensure all provisions required by federal grant awards are included in contracts and/or project specifications.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: CPA will ensure that all announcements/solicitations and contracts funded by federal funds contain the Buy American clause, as required.

Corrective action will be taken immediately, and completion will be achieved before the end of FY 2010. CPA will ensure this clause is applied consistently as required.

Proposed Completion Date: Before the end of FY 2010

COMMONWEALTH PORTS AUTHORITY

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

Finding No.: 2009-3
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4), equipment procedures (including replacement equipment), whether acquired in whole or in part with grant funds, are required to meet the following criteria:

- (1) Property records must include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated;
- (4) Adequate maintenance procedures must be developed to keep the property in good condition; and
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: CPA has not conducted a physical inventory of its fixed assets in the last three years. In addition, a log indicating the location of equipment is not being maintained. Total fixed asset additions related to CPA's major program amounted to \$11,051,139, \$9,826,975 and \$22,986,600 during fiscal years 2009, 2008 and 2007, respectively. Of the total additions, \$10,734,776, \$9,778,502 and \$22,022,560 represent additions to construction in progress during the fiscal years ended September 30, 2009, 2008 and 2007, respectively.

Cause: The cause of the above condition is the lack of controls to ensure compliance with equipment requirements.

Effect: The effect of the above condition is noncompliance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4).

Recommendation: We recommend that management ensure a physical inventory of equipment is conducted at least once every two years. We also recommend that documentation procedures be established to ensure fixed asset records are maintained.

Prior Year Status: The lack of compliance with 49, CFR Section 18.31(4)(d)(1)(2)(3)(4) was reported as a finding in the Single Audit of CPA for fiscal year 2008.

COMMONWEALTH PORTS AUTHORITY

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

Finding No.: 2009-3, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: In FY 2010, CPA made efforts to conduct physical inventories of its department property. A significant effort is needed as inventories have not been performed for some time. CPA's goal is to eventually account for all equipment and property. An inventory log has been created tracking purchases, existing equipment, location, funding source, disposition, condition, purchasing source (PO number for example), date acquired, etc. CPA will increase its effort and ensure that all property (purchases through federal funds and local funds) is accounted for. CPA will follow the recommendation and conduct a physical inventory at least once every two years.

CPA intends to complete the inventory by the end of FY 2010. CPA will then maintain inventory records in the future.

Proposed Completion Date: By the end of FY 2010

COMMONWEALTH PORTS AUTHORITY

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

Finding No.: 2009-4
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Reporting
Questioned Costs: \$-0-

Criteria: The expenses reported on the Outlay Report and Request for Reimbursement (SF-271) should be based on the general ledger.

Condition: Based on our examination of the general ledger, we noted that grant expenses for the year were not recorded on a regular and monthly basis.

Cause: The cause of the above condition is that spreadsheets are being used to keep track of expenses and for reporting purposes.

Effect: The effect of the above condition is that the SF-271 does not reflect the expenses recorded in the general ledger at the time of submission.

Recommendation: We recommend management ensure all expenses are properly recorded in a monthly and timely basis.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: Currently, CPA is recording all general ledger entries as transactions occur. CPA is ensuring that submitted progress billings are entered into the general ledger as they are received. Moreover, all outlays and corresponding reimbursement requests are being recorded in the general ledger as they occur. CPA is reducing the use of manual journal vouchers for recording these transactions (Accounting is no longer processing journal vouchers for recording these transactions). Finally, general ledger entries are reconciled to actual expenditures claimed on the request for reimbursement.

CPA considers this corrective action to be completed. However, CPA will ensure that it is enforced and continues throughout this fiscal year and all future fiscal years.

Proposed Completion Date: Ongoing

COMMONWEALTH PORTS AUTHORITY

Unresolved Prior Year Comments
Year Ended September 30, 2009

Questioned Costs

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

Questioned costs of fiscal year 2006	\$ 194,685
Questioned costs of fiscal year 2007	426,553
Questioned costs of fiscal year 2008	428,526
Questioned costs of fiscal year 2009	-
Resolved with grantor agency - Note 1	<u>(541,306)</u>
Unresolved questioned costs at September 30, 2009	\$ <u>508,458</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 through 17).

Note 1 - During the year ended September 30, 2009, CPA paid \$541,306 to a grantor agency related to questioned costs reported in the audits of CPA for fiscal years 2006 and 2007.



COMMONWEALTH PORTS AUTHORITY

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SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2008:

FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

- Finding No. 2008-1 - Not corrected. See corrective action plan to Finding No. 2009-1.
- Finding No. 2008-2 - Corrective action was taken.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2008-3 - Corrective action was taken.
- Finding No. 2008-4 - Corrective action was taken.
- Finding No. 2008-5 - Corrective action was taken.
- Finding No. 2008-6 - Not corrected. See corrective action plan to Finding No. 2009-3.