

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, 2012

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, 2012, and have issued our report thereon dated November 20, 2013. 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

Management of CPA is responsible for establishing and maintaining effective 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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 November 20, 2013.

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

Debitte J. Joubert LLC

November 20, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Commonwealth Ports Authority's (CPA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CPA's major federal programs for the year ended September 30, 2012. CPA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 11). 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 of CPA's compliance with those requirements.

In our opinion, CPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 through 2012-03.

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 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 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 OMB Circular A-133, 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.

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 type of compliance requirement of a federal 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 through 2012-03. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

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 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 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

CPA's response 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 response.

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

November 20, 2013

COMMONWEALTH PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Program Title	Federal CFDA Number/ Grantor I.D. No.	Expenditures
U.S. Department of the Interior		
Pass through the Government of the CNMI:		
Tinian Terminal Improvement	15.875	\$ 2,487
U.S. Department of Transportation		
Airport Improvement Program		
Direct Grants:		
Saipan International Airport - Saipan Rehabilitation Phase I, II, III, IV & V	3-69-0002-31/32/50/53/58/63/64/70	5,429,030
Saipan International Airport - Emergency Generator/Procurement/Install	3-69-0002-57/59/61	144,782
Saipan International Airport - Improve Terminal Building	3-69-0002-62/65/67	280,914
Saipan International Airport - ARFF Training Facility Improvement	3-69-0002-68/69	1,525,106
Rota International Airport - Extended Runway	3-69-0003-19/20	235,600
		<u>7,615,432</u>
U.S. Department of Homeland Security		
Port Security Grant Program	97.056	58,818
National Explosives Detection Canine Team Program (NEDCTP)	97.072	182,332
Saipan International Airport - Reimbursement Agreement	HSTS0208HSLR157	62,800
Saipan International Airport - Supplemental Lease Agreement	PS0020529, RWAN11207598	341,379
		<u>645,329</u>
		<u>\$ 8,263,248</u>
Reconciliation:		
Expenditures per Statement of Revenues, Expenses and Changes in Net Assets:		
Capital contributions		\$ 8,026,867
Other grant revenues and contributions		251,908
Less: Contributions from the CNMI government		<u>(15,527)</u>
		<u>\$ 8,263,248</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, 2012

(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 has an approved indirect cost allocation rate of 3%; however, no indirect costs were recorded against any federal program for fiscal year 2012. 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, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|--------------------------------------------------------------|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | No |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---------------------------------------------------------------------------------------------------------------------------|-------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major program: | |

<u>CFDA Number</u>	<u>Federal Program</u>
20.106	Airport Improvement Program
PS0020529, RWAN11207598	Saipan International Airport - Supplemental Lease Agreement

- | | |
|------------------------------------------------------------------------------|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as a low-risk auditee? | No |

B. FINANCIAL STATEMENT FINDINGS

No findings reported.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2012-01	Equipment and Real Property Management	\$ -	9 - 10
2012-02-03	Reporting	\$ -	11 -12

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

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2012-01
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 applicable equipment and real property management requirements, procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (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 adequately safeguard 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 for the highest possible return.

Condition: CPA performed a physical inventory of its fixed assets during fiscal year 2012; however, the results were not reconciled to property records. Total fixed asset additions related to CPA's major program amounted to \$7,615,432, \$7,944,024 and \$13,147,492 during fiscal years 2012, 2011 and 2010, respectively. Of the total additions, \$7,615,432, \$7,944,024 and \$13,076,085 represent additions to construction in progress during the fiscal years ended September 30, 2012, 2011 and 2010, respectively.

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

Effect: The effect of the above condition is noncompliance with equipment and real property management requirements.

Recommendation: We recommend that management conduct a physical inventory of equipment at least once every two years and reconcile the results to property records.

Prior Year Status: The lack of compliance with equipment and real property management requirements was reported as a finding in the Single Audits of CPA for fiscal years 2008 through 2011.

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

Finding No.: 2012-01, 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: Skye Lynn L. Aldan, Acting Comptroller

Corrective Action: CPA completed a physical inventory in September 2012; however, the results of the physical inventory were not reflected in the general ledger. The physical inventory report made no distinction between federal and CPA funded items/equipment. In FY 2013, CPA's Procurement Officer updated and confirmed the physical inventory reports with each department and coordinated with the accounting department in determining the distinctions between federally funded and CPA funded items. An official current listing was created which included the asset status and identified disposal asset items for the accounting department to adjust, update and reconcile against the actual physical inventory report. Adjustments to reconcile the fixed asset sub-ledger to the general ledger will be proposed.

Proposed Completion Date: September 30, 2013

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

Finding No.: 2012-02
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: In accordance with applicable reporting requirements, Form 5100-126, *Financial Government Payment Report*, must capture amounts paid and services provided to other units of government.

Condition: Form 5100-126, due January 31, 2013, was filed by CPA on March 4, 2013. Based on our tests of the form, CPA did not include amounts paid to other governmental units during the fiscal year.

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

Effect: The effect of the above condition is noncompliance with reporting requirements. No questioned costs result as no federal funds were expended.

Recommendation: We recommend CPA adhere to reporting requirements.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA understands that the report is an annual requirement for all airports that agreed to AIP grant assurances on or after January 1, 1995, have enplanements of 2,500 or more passengers in a calendar year, and that provide commercial service in the preceding calendar year for at least 2,500 enplanements. CPA is taking necessary steps to ensure that this report is filed accurately and in a timely manner.

Proposed Completion Date: Ongoing

COMMONWEALTH PORTS AUTHORITY

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

Finding No.: 2012-03
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: In accordance with OMB Circular A-133 Subpart C §__320(a), the audit shall be completed and the data collection shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition: CPA's Single Audit reports for fiscal year 2012 were not completed within nine months after the end of the audit period.

Cause: The cause of the above condition is the ongoing negotiations with another government agency related to disputed utility charges incurred by CPA during fiscal year 2012. The parties have subsequently reconciled and resolved their differences.

Effect: The effect of the above condition is the lack of compliance with OMB Circular A-133 Subpart C §__320(a).

Recommendation: We recommend management comply with OMB Circular A-133 Subpart C §__320(a).

Prior Year Status: The lack of compliance with OMB Circular A-133 Subpart C §__320(a) was reported as a finding in the Single Audit of CPA for fiscal year 2011.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA agrees with this finding. The negotiations regarding FY 2011 and FY 2012 utility billing disputes were resolved in FY 2013. CPA is working towards providing financial reports in a timely manner although; negotiation resolutions affecting CPA's financials are unpredictable and sometimes dependent on factors outside of CPA's control.

Proposed Completion Date: September 30, 2013

COMMONWEALTH PORTS AUTHORITY

Unresolved Prior Year Comments
Year Ended September 30, 2012

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 through 12). There are no unresolved questioned costs from prior year audits of CPA.



COMMONWEALTH PORTS AUTHORITY

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

No findings reported.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2011-01 - Corrective action was taken.
- Finding No. 2011-02 - Not corrected. See corrective action plan to Finding No. 2012-01.
- Finding No. 2011-03 - Not corrected. See corrective action plan to Finding No. 2012-03.
- Finding No. 2010-02 - Not corrected. See corrective action plan to Finding No. 2012-01.
- Finding No. 2009-03 - Not corrected. See corrective action plan to Finding No. 2012-01.
- Finding No. 2008-06 - Not corrected. See corrective action plan to Finding No. 2012-01.