

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, 2015

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, in accordance with the 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, the basic financial statements of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 6, 2016. Our report includes explanatory paragraphs concerning CPA's obligation to the CNMI government and deficient employer contributions due to a related party, and was qualified due to our inability to determine the effects of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on CPA's financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of CPA's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPA's financial statements are free from 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

September 6, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Commonwealth Ports Authority:

Report on Compliance for Each Major Federal Program

We have audited Commonwealth Ports Authority's (CPA's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on CPA's one major federal program for the year ended September 30, 2015. CPA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for CPA's one major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for CPA's one major federal program. However, our audit does not provide a legal determination of CPA's compliance.

Basis for Qualified Opinion on CFDA 20.106 Airport Improvement Program

As described in the accompanying Schedule of Findings and Questioned Costs, CPA did not comply with requirements regarding CFDA 20.106 Airport Improvement Program as described in item 2015-001 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 20.106 Airport Improvement Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CPA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.106 Airport Improvement Program for the year ended September 30, 2015.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002. Our opinion on CPA's one major federal program is not modified with respect to this matter.

CPA's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. CPA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of CPA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CPA's internal control over compliance with the types of requirements that could have a direct and material effect on its one major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its one major federal program 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to be a significant deficiency.

CPA's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. CPA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of CPA as of and for the year ended September 30, 2015, and have issued our report thereon dated September 6, 2016, which contained explanatory paragraphs concerning CPA's obligation to the CNMI government and deficient employer contributions due to a related party, and was qualified due to our inability to determine the effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* on CPA's financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards 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 Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLC

September 6, 2016

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

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	\$ 78,866
U.S. Department of Transportation		
Airport Improvement Program		
Direct Grants:		
Saipan International Airport - Saipan Rehabilitation Phase I, II, III, IV & V	3-69-0002-53/58/63/64/70/71/73/75/81	20,222
Saipan International Airport - Improve Terminal Building	3-69-0002-62/65/67/78	4,423,707
Saipan International Airport - ARFF Training Facility Improvement	3-69-0002-68/69/72/74/77/82	2,934,408
Saipan 1,500 Gallon ARFF Vehicle	3-69-0002-76	1,405
Saipan Taxiway "B" Rehab Phase I (Design Grant)	3-69-0002-79	118,782
Saipan Runway Sweeper Procurement	3-69-0002-80	1,405
Saipan ARFF Truck	3-69-0002-85	563
Rota 1,500 Gallon ARFF Vehicle	3-69-0003-22	1,405
Rota Improve ARFF Building Phase (Design)	3-69-0003-23	71,521
Rota Master Plan Update	3-69-0003-25	473
Tinian 1,500 Gallon ARFF Vehicle	3-69-0011-22	1,405
Tinian Master Plan Update	3-69-0011-26	743
		<u>7,576,039</u>
U.S. Department of Homeland Security		
Port Security Grant Program	97.056	36,321
National Explosives Detection Canine Team Program (NEDCTP)	97.072	151,500
Saipan International Airport - Reimbursement Agreement	HSTS0208HSLR157	68,423
		<u>256,244</u>
		<u>\$ 7,911,149</u>
Reconciliation:		
Expenditures per Statement of Revenues, Expenses and Changes in Net Position:		
Capital contributions		\$ 7,671,967
Other grant revenues and contributions		239,182
		<u>\$ 7,911,149</u>

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

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Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2015

(1) Scope of Audit

CPA was established as a public corporation by the 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 unearned revenue.

b. 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.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

- | | |
|---|-----------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | |
| CFDA Number 20.106 | 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. Identification of major programs: | |
| <u>CFDA Number</u> <u>Name of Federal Program</u> | |
| 20.106 Airport Improvement Program | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2015-001	20.106	Equipment and Real Property Management	\$ -	9 - 10
2015-002	20.106	Reporting	\$ -	11

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-001
 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 be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the federal award identification number), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, 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 annually;
- (3) A control system must be developed to confirm adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.

Condition: Tests of equipment and real property noted the following:

- CPA performed a partial physical inventory of its capital assets during fiscal year 2015. Total fixed asset additions capitalized and related to CPA's major program amounted to \$-0-, \$167,272 and \$7,198,206 during fiscal years 2015, 2014 and 2013, respectively.
- Of forty-five items tested, we were unable to determine the existence of six as the capital asset subledger lacks sufficient description to identify the assets including the location and condition of the assets:

General Ledger Asset Account No.	System No.	Description	In Service Date	Acquisition Cost	Net Book Value
1510-111	000672	Bronze/Aluminum Framed Glass Windows	12/01/04	\$ 40,167	\$ -
1520-211	000048	FAA 06-75-0003-01	11/01/79	\$ 2,193,714	\$ -
1520-311	000045	TIQ FAA 75-0011-01	07/01/78	\$ 188,031	\$ -
1570-111	000660	Security Access	10/01/04	\$ 2,371,271	\$ -
1590-111	000761	Rapid Intervention Vehicle	10/01/06	\$ 427,461	\$ 42,746
1590-311	000077	ARFF Truck	11/01/93	\$ 341,239	\$ -

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. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-001, 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-

Recommendation: We recommend that CPA conduct a physical inventory of all capital assets on an annual basis, reconcile the results to property records and include sufficient details in the capital assets subledger to specifically identify individual assets.

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 2014 as 2008-06, 2009-03, 2010-02, 2011-02, 2012-01, 2013-001 and 2014-002.

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA conducted a partial physical inventory in FY 2015, but was delayed in completion due to Typhoon Soudelor. CPA is continuing physical inventory efforts into FY 2016 and anticipates proposed adjustments to update/reconcile results to the property records. Some adjustments to reconcile the fixed asset sub-ledger to the general ledger were completed in fiscal year 2015 for both the Airports and the Seaports. CPA recognizes that these adjustments only partially address this finding as not all inventory items were reconciled to the general ledger. Additionally, specific descriptions, locations and conditions of the fixed assets listed will be included to ensure proper identification of assets.

Proposed Completion Date: Ongoing

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.106 Airport Improvement Program
 Federal Award Nos.: 3-69-0002-83
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, SF-425, Federal Financial Report for cash status, should be supported by applicable accounting records.

Condition: Tests of reporting requirements noted variances between the SF-425 and the general ledger for the reporting period ended 09/30/15. A recipient share was reported even though no recipient share was required, as follows:

		<u>Per SF-425</u>	<u>Per General Ledger</u>	<u>Variance</u>
Recipients	10i. Total Recipient Share Required	\$ 111,111	\$ -	\$ 111,111
Share	10k. Remaining Recipient Share to be provided	\$ 111,111	\$ -	\$ 111,111

Cause: The cause of the above condition is the lack of supervisory review over conformance with grant agreements.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs are reported as there is no negative effect on federal monies received by the entity or disbursed by the grantor.

Recommendation: We recommend that CPA perform supervisory review of reporting so that reports accurately reflect the required recipient share in accordance with related grant agreements.

Auditee Response and Corrective Action Plan:

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

Corrective Action: A revised SF-425 was submitted to the Federal Aviation Administration to correct the recipient share portion. CPA will monitor and review program reporting to confirm information reported is in accordance with related grant agreements.

Proposed Completion Date: Corrected

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Unresolved Prior Year Comments
Year Ended September 30, 2015

Questioned Costs

There are no prior year unresolved questioned costs of CPA.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 8 through 11).



COMMONWEALTH PORTS AUTHORITY

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINANCIAL STATEMENT FINDINGS

No findings reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 2014-001 - Resolved.

Finding No. 2014-002 - See corrective action plan to Finding No. 2015-001.

Finding No. 2013-001 - See corrective action plan to Finding No. 2015-001.

Finding No. 2012-01 - See corrective action plan to Finding No. 2015-001.

Finding No. 2011-02 - See corrective action plan to Finding No. 2015-001.

Finding No. 2010-02 - See corrective action plan to Finding No. 2015-001.

Finding No. 2009-03 - See corrective action plan to Finding No. 2015-001.

Finding No. 2008-06 - See corrective action plan to Finding No. 2015-001.