

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, 2011

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, 2011, and have issued our report thereon dated June 27, 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 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.

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 above.

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 June 27, 2013.

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

June 27, 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, 2011. 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 12). 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.

As described in items 2011-01 through 2011-03 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 Airport Improvement Program (CFDA # 20.106). 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 major federal program for the year ended September 30, 2011.

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 2011-01 through 2011-03. 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, 2011, and have issued our report thereon dated June 27, 2013. 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 the responses.

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

June 27, 2013

COMMONWEALTH PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Program Title	Federal CFDA Number/ Grantor I.D. No.	Expenditures
U.S. Department of Transportation		
Airport Improvement Program	20.106	
Direct Grants:		
Saipan International Airport - Saipan Rehabilitation Phase I, II, III, IV & V	3-69-0002-31/32/50/53/58/63/64/70	\$ 6,127,067
Saipan International Airport - Saipan Rehabilitation Phase VI (ARRA)	3-69-0002-60	1,068,789
Saipan International Airport - Emergency Generator/Procurement/Install	3-69-0002-57/59/61	729,294
Saipan International Airport - Improve Terminal Building	3-69-0002-62/65/67	63,462
Saipan International Airport - ARFF Training Facility Improvement	3-69-0002-68/69	745,195
Rota International Airport - Extended Runway	3-69-0003-19/20	619,400
		<u>9,353,207</u>
Transportation Security Administration		
National Explosives Detection Canine Team Program (NEDCTP)	97.072	150,500
Saipan International Airport - Reimbursement Agreement	HSTS0208HSLR157	89,565
Saipan International Airport - Supplemental Lease Agreement	GS-09B-1396	47,592
		<u>287,657</u>
U.S. Department of Homeland Security		
Port Security Grant Program	97.056	5,094
U.S. Department of the Interior		
Pass through the Government of the CNMI:		
Tinian Terminal Improvement	15.875	245,916
Tinian Harbor Emergency Repairs	15.875	29,678
		<u>275,594</u>
		<u>\$ 9,921,552</u>
Reconciliation:		
Expenditures per Statement of Revenues, Expenses and Changes in Net Assets:		
Capital contributions		\$ 8,288,801
Other grant revenues and contributions		1,661,491
Less: Contributions from the CNMI government		<u>(28,740)</u>
		<u>\$ 9,921,552</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, 2011

(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 16.3%, however, no indirect costs were recorded against any federal program for fiscal year 2011. 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, 2011

A. SUMMARY OF AUDITORS' 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: | 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 program: | |
| | 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: | \$300,000 |
| 11. | CPA 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>
2011-01	Allowable Costs/Cost Principles	\$ -	9
2011-02	Equipment and Real Property Management	\$ -	10 - 11
2011-03	Reporting	\$ -	12

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2011-01
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award No.: AIP No. 3-69-0002-59
Federal Award Periods Ended: 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: Of twenty-two expenditures tested, amounting to \$7,920,342, we noted that one contract, the Emergency Generator Project accounting for 7% of total expenditures tested, did not note the inclusion of the Buy American clause.

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

Effect: The effect of the above condition is lack of compliance with grant requirements. No questioned costs result as both contractors adhered to requirements of the Buy American clause by purchasing American made products.

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

Prior Year Status: Noncompliance with the Buy American clause requirement was reported as a finding in the Single Audits of CPA for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Wendi L. Prater, Executive Assistant

Corrective Action: Due to timing issues in the receipt of this finding from FY2009 and FY2010 and addressing the necessary corrective actions with management, CPA does acknowledge this finding and it was in FY2010 that the contract administrator did address this requirement with management and will ensure in the future to incorporate the necessary language with the Buy American clause.

In addition, on March 13, 2013, CPA prepared and transmitted a Grant Oversight Risk Assessment Checklist to the Federal Aviation Administration along with CPA's Grant Oversight Procedures. Although it is still under review, the procedures provide guidance on how CPA handles AIP projects, from start to finish. Although the "Buy American Clause" is not specifically detailed in the checklist, procurement in compliance with all Federal regulations, requirements and certifications is outlined.

Proposed Completion Date: September 30, 2013.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-02
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 2011; however, the results were not reconciled to property records. Total fixed asset additions related to CPA's major program amounted to \$7,944,024, \$13,147,492 and \$11,051,139 during fiscal years 2011, 2010 and 2009, respectively. Of the total additions, \$7,944,024, \$13,076,085 and \$10,734,776 represent additions to construction in progress during the fiscal years ended September 30, 2011, 2010 and 2009, 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 2010.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-02, 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: Ida S. De Brum, Accounting Manager

Corrective Action: CPA conducted physical inventory for both airport and seaport divisions in FY 2011 and FY 2012 and were completed in September 2011 and 2012, respectively. However, the results of the physical inventory were not reflected in the general ledger. Further, the physical inventory reports did not identify the distinctions of the federally and CPA funded asset items. In FY 2012, CPA hired a procurement officer and was tasked to create the management procedures and controls for all asset items to address the corrective actions in resolving this finding. In FY 2013, the procurement officer updated and confirmed the physical inventory reports with each department and coordinated with the accounting department the identification and distinction of the federal asset items and the CPA asset items. With this coordination, the procurement officer and accounting staff were able to update, identify and reconcile the physical inventory reports against the audited fixed asset subledger report. Furthermore, it created the official current listings with asset status and the identification of disposal asset items for accounting department to adjust, update and reconcile their records against the actual physical inventory report. Adjustments to reconcile the fixed asset subledger to the general ledger will be proposed.

Proposed Completion Date: September 30, 2013

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-03
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 2011 were not completed within nine months after the end of the audit period.

Cause: The cause of the above condition is due to ongoing negotiations with another government agency related to disputed utility charges incurred by CPA during fiscal year 2011.

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).

Auditee Response and Corrective Action Plan:

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

Corrective Action: CPA concurs with this finding. Ongoing negotiations with the governmental agency continued into fiscal years 2012 and 2013. During the Board of Directors (BOD) meeting on May 31, 2013, CPA's legal counsel provided full disclosure to the Board on the matter. The BOD subsequently authorized the legal counsel to continue negotiations with the governmental agency until a resolution is reached. At the same meeting, the BOD concurred with the Accounting Manager to propose an allowance for the disputed charges in fiscal year 2011 to close the fiscal year 2011 audit and for the effects of any resolution on the disputed charges to be effectuated in FY 2012.

Proposed Completion Date: September 30, 2013

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Unresolved Prior Year Comments
Year Ended September 30, 2011

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, 2011:

Questioned costs as previously reported	\$ 508,458
Less questioned costs resolved in fiscal year 2011:	
(1) Questioned costs of fiscal year 2007	(79,932)
(1) Questioned costs of fiscal year 2008	(428,526)
Questioned costs of fiscal year 2011 Single Audit	<u>-</u>
Unresolved questioned costs at September 30, 2011	\$ <u><u>-</u></u>
(1) OMB Circular A-133, Section 315(b)(4) - questioned costs resolved as CPA considers these findings no longer valid as they were reported to federal agencies in excess of the two-year threshold as of September 30, 2011.	

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 12).



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, 2010:

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. 2010-1 - Not corrected. See corrective action plan to Finding No. 2011-01.
- Finding No. 2010-2 - Not corrected. See corrective action plan to Finding No. 2011-02.
- Finding No. 2010-3 - Corrective action was taken.