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CPA Chairwoman Issues Statement Regarding Annual Audit

The annual audit is a tool that the CPA Board uses to ensure that representations made by management in the course of spending funds, whether local or federal, are done so in compliance with applicable federal and local laws, rules, and regulations and in conformance with standards set by the Governmental Accounting Standards Board. When the audit issues findings, it tells the Board that there's room for improvement, and it is the Board's expectation that CPA management will swiftly take corrective measures to ensure that we are prudent managers of said funds and that we put in place internal controls, if lacking, to ensure compliance with all applicable laws, rules, and regulations.

This year's audit presented five findings. Finding No. 1 generally relates to not recording expenses in the proper reporting period. For example, the US Army Corp of Engineers was contracted by the CNMI government to perform a harbor feasibility study for the Rota and Tinian Ports in 2016. CPA paid a part of the local share for that contract. The feasibility study, however, was not completed until 2018 and was not provided to CPA until 2021. Once the feasibility study was provided to CPA, CPA recorded the expense. The Finding states that this was an error and CPA should have recorded the expense in 2018 – not in 2021.

Finding No. 2 generally states that CPA didn't follow certain procurement rules and regulations. For example, there were RFPs that were advertised for less than the required bidding period of 30 days. CPA issued and advertised these questioned RFPs for a period of four weeks. According to the audit, some of the advertisements were only for 28 days, falling short of the 30 days requirement. The corrective measures that CPA has taken moving forward is to physically count the number of days instead of assuming that four weeks is sufficient.

Another issue under Finding No. 2 pertains to federal contracts that did not have a signature line for the procurement officer. We expect to see this as a repeat finding in next year's audit because CPA has only been made aware of this oversight. CPA has taken corrective measures to address this issue by making sure that all future contracts have the required signature line for the procurement officer.

Another issue raised was in regard to two sole source contracts: the contract for the roof replacement at the Saipan International Airport and the contract for the project

management of the AARF training facility. After Super Typhoon Yutu, CPA used its sole source procurement process to expeditiously complete the projects since the contractors were already familiar with the projects and facilities. The finding was issued because CPA did not state the unique capabilities of the contractors for the projects. CPA is taking corrective measures by ensuring that all sole source contracts include the required justification, which was lacking in these two contracts.

Finding No. 3 states that CPA is not in compliance with equipment and real property policies and regulations. Resolving this issue is a work in progress because past accounting entries in CPA's ledger lack specificity. This means that although an entry has been recorded, CPA is unable to identify what the asset is without additional research. For example, our general asset ledger describes an asset from 1978 with an entry that states "TIQ FAA 75-0011-01." Our comptroller wasn't even born in 1978 and I'm pretty sure that asset no longer exists, but we are sifting through documents to try to figure out where that asset is exactly. We expect this to be a repeat finding in next year's audit. Other equipment issues include not properly recording the fact that items were either damaged and disposed of without proper recordation. These damaged and disposed items included a tire and rim from 1997, computers from the 90's, and aluminum doors for the loading bridge, just to name a few. CPA agrees with Finding No. 3 and management is taking the necessary steps to identify these assets, properly record them, and ensure timely decommissioning and disposal of such non-functioning equipment.

Finding No. 4 was made in regard to discrepancies in CPA's reporting of its local share for certain federally-funded projects. Specifically, this Finding is in regard to two grants: one for the loading bridges and one for the Saipan International Airport Master Plan. For the loading bridge grant, CPA did not include the grant amendment when it calculated its share of the project cost. This has been corrected. In regard to the Saipan International Airport Master Plan grant, CPA was required to submit a "close-out" report that lists all costs associated with the project. When CPA submitted this report, not all the costs associated with the project were included. CPA agrees with these findings and has since revised the report to reflect all the costs that were associated with this project.

Finding No. 5 questions whether certain costs are allowed under the grant's terms and conditions. For example, the audit questioned a cost in the amount of \$23,263 for CARES funds expended for utilities. Basically, the auditors have used a formula that states that CPA can only reimburse 74% of its utilities costs from the CARES grant. CPA, however, reimbursed 100% of its utilities costs from the CARES grant. CPA disagrees with this finding because it is CPA's position that 100% of those utilities cost claimed are attributable to airport operations. Another questioned cost under this finding is the \$1,500 spent on plant rental. The audit found that CPA cannot use CARE funds for plant rentals because it is not directly related to the air transportation of passengers. However, the grant terms state that the funds can be used for any purpose for which airport revenues may be used. The plant rental services are provided directly to the airport, and as such,

CPA believes that it is an allowable cost. CPA has contacted the FAA to confirm whether these costs are allowable under the grant and is waiting for further FAA guidance.

CPA welcomes all interested citizens to participate in our regular board meetings to share their concerns regarding our annual audit. Audits are a great way of ensuring that CPA is transparent and accountable to the public as to the manner in which it expends public funds. More importantly, it is a great tool for board members to see where the gaps are in terms of policies and where management needs to improve with regards to operating procedures. I am confident that CPA's management will implement the necessary corrective actions and measures to resolve the findings as raised by the audit.

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