Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Schedule of Passenger Facility Charge Collections and Expenditures
Year Ended September 30, 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Schedule of Passenger Facility Charge
Collections and Expenditures
Year Ended September 30, 2016

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Contents

Independent Auditor's Report 3-4

Schedule

Schedule of Passenger Facility Charge Collections and Expenditures 5

Notes to Schedule of Passenger Facility Charge Collections and Expenditures 6

Independent Auditor's Reports Required by *Government Auditing Standards* **and the** *Passenger Facility Charge Audit Guide for Public Agencies*

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards* 7-8

Independent Auditor's Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance 9-11

Passenger Facility Charge Schedule of Findings and Questioned Costs

Program Finding 12-13

Status of Prior Year Findings 14

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report

To the Governing Board
Virgin Islands Port Authority

Report on the Schedule

We have audited the accompanying Schedule of Passenger Facility Charge (PFC) Collections and Expenditures (the Schedule) of the Virgin Islands Port Authority (the Authority), a component unit of the Government of the U.S. Virgin Islands, for the year ended September 30, 2016, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the provisions prescribed in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide) issued by the Federal Aviation Administration. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the collections and expenditures related to the Passenger Facility Charge activity of the Authority for the year ended September 30, 2016, in accordance with the provisions prescribed in the Guide.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance, as related to the Schedule, with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance related to the Schedule and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance related to the Schedule. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance related to the Schedule.

Restriction on Use

This report is intended solely for the information and use of management, the Governing Board of the Authority, others within the Authority, and the Federal Aviation Administration, and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

June 23, 2017

Schedule

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Schedule of Passenger Facility Charge Collections and Expenditures
Year Ended September 30, 2016 and Each Quarter Therein

Quarter Ended	PFC Revenues Collected	Interest Earned Thereon	PFC Expenditures Disbursed
December 31, 2015	$ 717,572	$ 4,489	$ 33,567
March 31, 2016	$ 866,136	$ 4,982	$ -
June 30, 2016	$ 989,049	$ 5,452	$ 244,899
September 30, 2016	$ 794,366	$ 5,788	$ 485,726
Total	$ 3,367,123	$ 20,711	$ 764,192

See accompanying notes to the Schedule.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Notes to Schedule of Passenger Facility Charge Collections and Expenditures

1. Nature of Activities

The Virgin Islands Port Authority (the Authority) was created by Act 2375 of December 23, 1968, to operate as an autonomous agency. The Authority commenced operations on February 11, 1969, by virtue of Act 2405. The Authority owns and manages the air and marine terminals of the U.S. Virgin Islands.

The airlines that use the Authority's airport facilities collect a Passenger Facility Charge (PFC) of up to $4.50 per passenger from travelers leaving the U.S. Virgin Islands from the Cyril E. King Airport (CEKA) and $3.00 from travelers leaving the U.S. Virgin Islands from the Henry E. Rohlsen Airport (HERA). As approved by the Federal Aviation Administration (FAA), the use of funds generated by the PFC is restricted for the construction of certain FAA approved capital projects. The PFCs, less an administrative fee charged by the airlines for processing, are collected by the airlines and remitted on a monthly basis to the Authority.

2. Basis of Presentation

PFC collections are reported when received from the carriers and expenditures are reported when paid. Interest related to PFC unliquidated funds is reported when credited to the PFC designated bank account. PFC expenditures consist of direct project costs as provided in the supporting applications approved by the FAA.

The information in this Schedule is presented as specified in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the FAA. Therefore, some amounts presented in this Schedule may differ from the amounts presented in, or used in preparation of, the Authority's basic financial statements.

3. PFC Program Funds

The Authority is obligated to administer and spend monies in accordance with regulatory restrictions, and is subject to audit by federal agencies. In cases of non-compliance, the agencies involved may require the Authority to refund program monies. Management believes these non-compliance instances, if any, should not materially affect the Authority.

Independent Auditor's Reports
Required by *Government Auditing Standards*
and the *Passenger Facility Charge*
Audit Guide for Public Agencies

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards*

To the Governing Board
Virgin Islands Port 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 Schedule of Passenger Facility Charge (PFC) Collections and Expenditures (the Schedule) of the Virgin Islands Port Authority (the Authority), a component unit of the Government of the U.S. Virgin Islands, for the year ended September 30, 2016, and the related notes to the Schedule, and have issued our report thereon dated June 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered the Authority'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 Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control related to the Schedule. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control related to the Schedule.

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 Authority's Schedule 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 related to the Schedule that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control related to the Schedule that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's Schedule is 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 Schedule 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*.

Purpose of this Report

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

BDO USA, LLP

June 23, 2017

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance

To the Governing Board
Virgin Islands Port Authority

Report on Compliance

We have audited the Virgin Islands Port Authority's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide) issued by the Federal Aviation Administration (FAA) that could have a direct and material effect on the Authority's passenger facility charge program for the year ended September 30, 2016.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's passenger facility charge 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 the Guide. Those standards and the Guide 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 the Authority's passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion

As described in the accompanying passenger facility charge schedule of findings and questioned costs, the Authority did not comply with requirements regarding the maintenance of separate accounting records as described in item PFC 2016-01. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to the passenger facility charge program.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Authority 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 the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, 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 the Authority'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 the passenger facility charge 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 the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. 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 the passenger facility charge 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying passenger facility charge schedule of findings and questioned costs as item PFC 2016-01, that we consider to be a material weakness.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying passenger facility charge schedule of findings and questioned costs. The Authority'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 the Guide. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

June 23, 2017

Passenger Facility Charge
Schedule of Findings and Questioned Costs

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Passenger Facility Charge Schedule of Findings and Questioned Costs

Program Finding

PFC 2016-01: Accounting Records

Information on PFC Program:

Application #	Approved for Collection	PFC Level	Description
11-08-C-00-STT	$ 13,353,396	$ 4.50	• Terminal Improvements
11-08-C-01-STT	$ 2,830,693	$ 4.50	• Terminal Improvements
11-05-C-00-STX	$ 1,869,822	$ 3.00	• Terminal Improvements
11-05-C-01-STX	$ 396,348	$ 3.00	• Terminal Improvements

Criteria or Specific Requirement – Title 14 Code of Federal Regulations, Part 158, Subpart D contains the requirements for reporting, recordkeeping and auditing accounts maintained by public agencies. One such requirement calls for a public agency to maintain, for each approved PFC application, a separate accounting record. The accounting record should identify the PFC revenue received from the collecting carrier(s), interest earned on such revenue, the amounts used on each project, and the amount reserved for currently approved projects.

Condition – We noted that the Authority has implemented a process to maintain separate accounting records for each approved and open PFC application; however, the recordkeeping did not include completed information related to the allocation and reconciliation of the amounts and the interest reserved for each approved project.

Questioned Costs – Not applicable.

Context – This is a condition identified per review of the Authority's compliance with specified requirements.

Effect – The Authority's financial reporting environment may not support timely recognition of an application charge expiration.

As such, when revenues collected exceed the allowable costs of a particular project, this may result in the excess PFC funds being utilized for projects not in accordance with FAA requirements. This can further lead to the FAA reducing the Authority's program apportioned funds.

Cause – It appears that policies and procedures are not in place to segregate accounting records by individual application.

Recommendation – We recommend that the Authority establish stronger tracking and monitoring systems to ensure the required segregation of accounting records by individual application. The Authority should continue to maintain all supporting documentation for the PFC activity and for the amounts reflected in various reports and verify consistency of the information. Management may also consider a review of all open applications to ascertain compliance with program requirements and to verify the accuracy of the cumulative collections and expenditures of said applications, including charge expirations.

Views of Responsible Officials and Planned Corrective Actions

Corrective Action Plan:

The Authority concurs and tracking and monitoring systems were put in place for the active grants in fiscal year 2016. To further ensure additional compliance, the Authority created a spreadsheet that contains all the required elements. For further compliance, the documentation will be reconciled quarterly, during the period the data is being entered in the PFC reporting system.

Implementation Date:

Immediately.

Responsible Official(s) for Corrective Action:

Chief Financial Officer, Controller, Project Accountant, and Internal Auditor.

Virgin Islands Port Authority
(A Component Unit of the Government of the U.S. Virgin Islands)

Passenger Facility Charge Schedule of Findings and Questioned Costs

Status of Prior Year Findings

Finding Number	*Type of Finding*	*Current Status*
PFC 2015-01	Accounting Records	Repeated; Finding Number PFC 2016-01.
PFC 2014-01	Accounting Records	Repeated; Finding Number PFC 2016-01.
PFC 2013-02	Accounting Records	Repeated; Finding Number PFC 2016-01.