

Peninsula Airport Commission

Schedule of Collections and Expenditures of Passenger Facility Charges

Year and Each Quarter During the Year Ended June 30, 2018

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with Government Auditing Standards

Commissioners
Peninsula Airport Commission
Newport News, Virginia

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 financial statements of the Peninsula Airport Commission, a component unit of the City of Newport News, Virginia, as of and for each year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Peninsula Airport Commission's basic financial statements, and have issued our reports thereon dated October 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the basic financial statements, we considered the Peninsula Airport Commission'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 the Peninsula Airport Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Airport Commission'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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as item IC-2018-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Peninsula Airport Commission's basic 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other issues that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to the management of Peninsula Airport Commission in a separate letter dated October 31, 2018.

Peninsula Airport Commission's Response to Findings

The Commission's response to the findings identified in our June 30, 2018, audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

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.

Dixon Hughes Goodman LLP

**Newport News, Virginia
October 31, 2018**

Independent Auditors' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance in Accordance with the Passenger Facility Charge Audit Guide for Public Agencies

Commissioners
Peninsula Airport Commission
Newport News, Virginia

Report on Compliance with the Passenger Facility Charge Program

We have audited the Peninsula Airport Commission's (Commission) 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, for its passenger facility charge (PFC) program (the "Program") that could have a direct and material effect on the Program for the years and each quarter during the years ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to the Program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Peninsula Airport Commission's compliance with the PFC Program 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 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 Program occurred. An audit includes examining, on a test basis, evidence about the Peninsula Airport Commission'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 PFC Program. However, our audit does not provide a legal determination of the Peninsula Airport Commission's compliance.

Opinion on Compliance

In our opinion, the Peninsula Airport Commission, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC Program for the years ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Peninsula Airport Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the Program. In planning and performing our audit, we considered the Peninsula Airport Commission's internal control over compliance with requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 Peninsula Airport Commission'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 a 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Dixon Hughes Goodman LLP

**Newport News, Virginia
October 31, 2018**

Notes to Schedule of Collections and Expenditures of Passenger Facility Charges

1. Basis of Presentation

The accompanying schedule of collections and expenditures of passenger facility charges presents the activity of the Passenger Facility Charge (PFC) program of the Peninsula Airport Commission (Commission), a component unit of the City of Newport News for the years ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (FAA).

2. Basis of Accounting

The Commission's PFC Schedule is prepared on the cash basis of accounting. The cash basis differs from accounting principles generally accepted in the United States of America (GAAP) in that under the GAAP approach, revenues are recognized when earned and expenses are recognized when incurred as opposed to recognizing when received and paid under the cash basis.

Collections

The Commission's Passenger Facility Charge revenue consists of PFC revenue received from collecting air carriers and interest earned from PFC accounts. Revenue is recorded when the air carriers remit the PFC charges to the Commission.

Expenditures

Expenditures are recognized when paid following the principles contained in the Passenger Facility Charge Audit Guide for Public Agencies (Guide), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The principles contained in the Guide are derived from the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation [14 Code of Federal Regulations Part 158].

3. Passenger Facility Charge

As of July 1, 2010, the FAA has given the Commission authority to impose a PFC, under multiple PFC applications, of \$4.50 per passenger for twenty-eight planned projects. The total approved revenue to be collected under these multiple applications is \$26,821,415. During 2018, \$824,185 of PFC was collected from air carriers under these agreements and is recognized in collections on the schedule of collections and expenditures of passenger facility. Other sources of revenue for the year was interest income earned on PFC deposits of \$3,181 for 2018.

Schedule of Findings and Questioned Costs and Responses

1. Summary of Auditors' Results

- a. An unmodified opinion was issued on the financial statements for the year ended June 30, 2018.
- b. There was a material weakness and no significant deficiencies noted in internal control over financial reporting to disclose, as noted in Finding IC-2018-001.
- c. The audit did not disclose any instances of noncompliance material to the financial statements.
- d. There were no material weaknesses or significant deficiencies noted in internal control over the Program disclosed by the audit.
- e. An unmodified opinion was issued on compliance for the Program.
- f. The audit did not disclose any audit findings required to be reported in accordance with the Federal Aviation Administration (Guide) for its Passenger Facility Charge Programs.
- g. Identification of Program:
Part 14 CFR 158 Passenger Facility Charge

2. Findings Relating to the Financial Statement which is Required to be Reported in Accordance with Government Auditing Standards

Finding IC-2018-001 – Management Override of Procurement Policies and Procedures

Condition

During our audit of the 2018 financial statements, we noted numerous instances where contracts were entered into with a disregard for the procurement policies and procedures that were in place at the Peninsula Airport Commission.

We tested 5 different vendors and noted 4 exceptions. All of the exceptions were a result of the proper procurement procedures for obtaining bids, quotes, and supporting documentation for selection criteria not being obtained or performed, as appropriate for the respective threshold the contract fell under.

Criteria

Procurement policies are a critical component of an entity's overall internal control system. Management should enforce the established policies and controls over expenditures of public funds. Management's disregard for policies and controls over procurement set a very poor "tone from the top", which can lead to increased risk of fraudulent activity and improper payments.

Effect

Management override of controls can lead to fraudulent activity and improper payments.

Identification of a Repeat Finding

Related to prior year finding IC-2017-001.

Peninsula Airport Commission
Schedule of Findings and Questioned Costs and Responses

Cause

Established controls and procedures were disregarded by upper management and proper oversight by the Commissioners did not detect the disregard of policies and procedures.

Recommendation

The Commission should ensure that the appropriate control environment is maintained by management and monitored by the Commissioners.

Corrective Action Plan

See the Commission's corrective action plan that follows.

3. Findings Relating to Compliance for the PFC Program

None

4. Status of Prior Year's Findings

Finding IC-2017-001 – Management Override of Procurement Policies and Procedures

See client's status of prior year's findings.

Finding IC-2017-002 – Management Override of Controls – Use of Personal Credit Card

See client's status of prior year's findings.

Finding 2015-001 - Inconsistent Method of Accounting

See client's status of prior year's findings.

Peninsula Airport Commission
Client's Corrective Action Plan and Status of Prior Year Findings



Dixon Hughes Goodman LLP
701 Town Center Drive, Suite 700
Newport News, VA 23606

As a result of our PFC audit performed by your firm for the fiscal years 2015 – 2017 the following findings were noted and our corrective action plan follows:

Status of Prior Year's Findings:

Inconsistent Method of Accounting (Finding 2015-001) - As of June 30, 2016 the cash basis of accounting has been consistently followed. No further action plan is needed.

Signature: _____

Michael Giardino, C.M.
Executive Director

Signature: _____

E. Renee Ford
Director of Finance & Administration

Peninsula Airport Commission
Client's Corrective Action Plan and Status of Prior Year Findings



Dixon Hughes Goodman LLP
701 Town Center Drive, Suite 700
Newport News, VA 23606

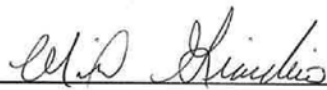
As a result of our financial audit performed by your firm for fiscal year 2018 the following findings were noted and our corrective action plan follows:

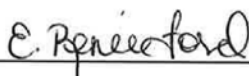
Management Override of Procurement Policies and Procedures (Finding IC2018-001) - The Peninsula Airport Commission has reviewed the revised Procurement Policy that was effective August 24, 2017. In addition Department Heads will develop a spreadsheet to track all contracts. This spreadsheet will be reviewed quarterly by the Assistant Executive Director in order to give proper notice on termination of contracts and rebidding of contracts as they expire. In addition the Peninsula Airport Commission is in the process of hiring an Office Manager to provide oversight over the procurement process, and the Commission has created an audit committee made up of two Commissioners to provide oversight as well.

Status of Prior Year's Findings:

Management Override of Procurement Policies and Procedures (Finding IC2017-001) – The Commission has reviewed the Procurement Policy and approved a revised policy effective August 24, 2017. This policy, among others, has been included in a binder and provided to the current Commissioners as well as future Commissioners when appointed. Also all directors, managers, supervisors and appropriate staff were provided the updated policy and acknowledged receipt. In addition the Peninsula Airport Commission is in the process of hiring an Office Manager to provide oversight over the procurement process, and the Commission has created an audit committee made up of two Commissioners to provide oversight as well.

Management Override of Controls – Use of Personal Credit Card Condition (Finding IC2017-002) – Action plan completed in April 2017. The Commission approved the Travel Policy. This policy is provided to all newly appointed Commissioners. The Commission has also created an audit committee made up of two Commissioners to provide oversight.

Signature: 
Michael Giardino, C.M.
Executive Director

Signature: 
E. Renee Ford
Director of Finance & Administration