

**PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)**

Single Audit and
Passenger Facility Charges Reports

Year Ended June 30, 2012

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
SINGLE AUDIT AND PASSENGER FACILITY CHARGES REPORTS
YEAR ENDED JUNE 30, 2012

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Board of Port Commissioners
of the City of Oakland, California

Sacramento

Walnut Creek

Century City

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**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***

We have audited the basic financial statements of the Port of Oakland, California (Port), a component unit of the City of Oakland, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. 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 the Port is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Port'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 the Port's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying federal awards schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in 2012-#1 in the accompanying federal awards schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port'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 the Port's management in separate letter dated December 14, 2012.

The Port's response to the finding identified in our audit is included in the accompanying federal awards schedule of findings and questioned costs. We did not audit the Port's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Port Commissioners, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP Kevin W. Hayden, CPA

Oakland, California
December 14, 2012

Board of Port Commissioners
of the City of Oakland, California

Sacramento

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and the Passenger Facility Charges Program, on Internal Control over Compliance, and on the Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Cash Receipts, Cash Disbursements and Interest by Quarter in Accordance with OMB Circular A-133

Walnut Creek

Century City

Los Angeles

Newport Beach

Compliance

San Diego

Seattle

We have audited the Port of Oakland's, California (Port), a component unit of the City of Oakland, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (PFC Guide) that could have a direct and material effect on each of the Port's major federal programs and the passenger facility charges program, respectively, for the year ended June 30, 2012. The Port's major federal programs are identified in the summary of auditors' results section of the accompanying federal awards schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and the passenger facility charges program is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port'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; *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations* and the *PFC Guide*. Those standards, *OMB Circular A-133*, and the *PFC 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 a major federal program or the passenger facility charges program occurred. An audit includes examining, on a test basis, evidence about the Port'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 on the Port's compliance with those requirements.

In our opinion, the Port complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and the passenger facility charges program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying federal awards schedule of findings and questioned costs as items 2012-#2 and 2012-#3.

Internal Control Over Compliance

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs and the passenger facility charges program. In planning and performing our audit, we considered the Port's internal control over compliance with requirements that could have a direct and material effect on a major federal program or the passenger facility charges 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* and the *PFC 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 Port'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 or the passenger facility charges 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 or the passenger facility charges 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 considered to be material weaknesses, as defined above.

**Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Cash Receipts,
Cash Disbursements and Interest by Quarter**

We have audited the basic financial statements of the Port as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards and schedule of passenger facility cash receipts, cash disbursements and interest by quarter are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *PFC Guide*, respectively, and are 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 basic 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 expenditures of federal awards and schedule of passenger facility cash receipts, cash disbursements and interest by quarter are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Port's response to the finding identified in our audit is included in the accompanying federal awards schedule of findings and questioned costs. We did not audit the Port's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Port Commissioners, management, and the federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Counsel LLP Kevin W. Hayes, CPA

Oakland, California

March 29, 2013, except for the Schedule of Expenditures of Federal Awards
and Schedule of Passenger Facility Cash Receipts, Cash Disbursements and Interest by Quarter,
for which the date is December 14, 2012

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

<u>Federal Agency, Pass Through Agency and Program Description</u>	<u>Program CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Transportation - Direct Program:		
Federal Aviation Administration - Airport Improvement Program (AIP)		
AIP-43	20.106	\$ 511,497
AIP-46	20.106	39,927
AIP-49	20.106	902,043
AIP-53	20.106	446,177
AIP-56	20.106	430,769
AIP-57	20.106	299,253
AIP-58	20.106	670,259
AIP-59	20.106	2,822,411
AIP-60	20.106	648,937
Total Airport Improvement Program		<u>6,771,273</u>
ARRA - Surface Transportation Discretionary Grants for Capital Investments - Transportation Investment Generating Economic Recovery (TIGER) Grants		
	20.932	<u>6,742,056</u>
Total U.S. Department of Transportation		<u>13,513,329</u>
U.S. Department of Homeland Security - Direct Program - Port Security Grant Authority - Port Security Grant Program		
	97.056	<u>3,594,740</u>
Total U.S. Department of Homeland Security		<u>3,594,740</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 17,108,069</u></u>

The accompanying notes are an integral part of this schedule.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

(1) General

The schedule of expenditures of federal awards (Schedule) presents the activity of the federal award programs of the Port of Oakland, California (Port). The reporting entity is defined in Note 1 of the Port's basic financial statements. Because the Schedule presents only the federal award activity of the Port, it is not intended to and does not present the financial position, changes in financial position or the cash flows of the Port.

(2) Basis of Accounting

The Schedule is presented using the accrual basis of accounting as described in Note 2 to the Port's basic financial statements. Expenditures of federal awards are reported in the Port's basic financial statements as expenses for non-capital expenditures and as additions to capital assets for related capital expenditures.

(3) Relationship to Federal Financial Reports

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
**SCHEDULE OF PASSENGER FACILITY CASH RECEIPTS, CASH DISBURSEMENTS
AND INTEREST BY QUARTER**
YEAR ENDED JUNE 30, 2012

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
Cash receipts	\$ 4,966,811	\$ 4,812,391	\$ 4,455,599	\$ 5,255,550	\$ 19,490,351
Cash disbursements	(2,829,594)	(2,309,646)	(8,747,153)	(3,412,316)	(17,298,709)
Interest income	17,177	21,979	15,048	12,057	<u>66,261</u>
Excess of cash receipts and interest income over cash disbursements					2,257,903
Unexpended cash balance at June 30, 2011					<u>12,415,916</u>
Unexpended cash balance at June 30, 2012					<u><u>\$ 14,673,819</u></u>

The accompanying notes are an integral part of this schedule.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
**NOTES TO SCHEDULE OF PASSENGER FACILITY CASH RECEIPTS,
CASH DISBURSEMENTS AND INTEREST BY QUARTER
YEAR ENDED JUNE 30, 2012**

(1) General

The Port of Oakland, California (Port), as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (Act), as amended, imposes a Passenger Facility Charge (PFC) of up to \$4.50 per enplaning passenger at the Oakland International Airport (Airport). Under the Act, air carriers are responsible for the collection of PFC charges and are required by the Act to remit PFC receipts to the Port in the following month after they are recorded by the air carrier. The Port has been approved by the FAA to impose PFCs from September 1, 1992 to approximately May 1, 2023. The Port intends to pursue future approvals to impose PFCs in accordance with FAA regulations.

PFC revenues, including any interest earned thereon, are restricted for use solely to finance allowable costs of new airport planning and development projects as defined and authorized by the FAA. PFC revenues may be used to pay debt service and related expenditures associated with these projects, if approved by the FAA for such purpose.

(2) Significant Accounting Policies

Basis of accounting

The accompanying schedule of passenger facility cash receipts, cash disbursements and interest by quarter (Schedule) is presented using the cash basis. Receipts represent amounts received from air carriers' enplaning passenger ticket sales. Disbursements represent Port payments for projects that have been authorized by the FAA under the Act.

Basis for quarterly reporting

The Port prepares quarterly reports, which are submitted to the FAA and to the airlines, of PFC amounts received and expended on the cash basis. The Port reimburses PFC disbursements by transferring cash to the Port Revenue Fund from the Restricted PFC Fund.

(3) Cash, Investments and Deposits

The City of Oakland (City) Charter requires all revenues, including PFC revenue, to be deposited with the City Treasurer. These funds are pooled in a citywide pool and invested by the City Treasurer pursuant to the investment policy adopted by the City Council and guidelines specified in the California Government Code. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily PFC balance on deposits and the earnings of the investments. PFC cash, investments and deposits held by the City totaled \$14,673,819 at June 30, 2012. This balance does not reflect net expenditures of \$1,685,748, which were included in the fourth quarter report to the FAA and airlines. The Port Restricted PFC Fund did not distribute the reimbursement for fourth quarter of the fiscal year to the Port Revenue Fund until September 1, 2012.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
FEDERAL AWARDS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section II Financial Statement Findings

2012-#1. Oracle Enterprise Resource Planning System Conversion (Material Weakness)

In our prior year communication, we noted that the Port converted to its Oracle Enterprise Resource Planning (ERP) system in November 2010 and noted weaknesses in the following areas 1) Training, 2) Financial Reporting, 3) Procurement Procedures, the combination of which resulted in a material weakness. The following is a status of our prior year recommendations:

Recommendation	Status
Prepare a user training plan, conduct thorough user training, follow up with the users to assure the training was adequate, conduct ongoing user training as necessary, and prepare a user handbook as a reference document.	In progress – Procurement developed training materials, held training classes for Port staff, published standard operating procedures and developed templates for Port employees to use when requesting certain requests for proposals, bids and quotes. User group discussions and small training sessions were held throughout the year to communicate best practices, share knowledge and resolve training gaps. Additional, the Port conducted an ERP survey and is in the process of assessing and addressing the training needs based on user feedback.
Update all the Port’s procedures to incorporate the new and revised Oracle procedures (billing/collections, procurement/disbursements, payroll/human resources, property management, capital projects and general ledger).	In progress – Procurement procedures were updated. Other departments have updated procedures. The team continues to update, improve and expand documentation with a focus on the highest risk areas.
Prepare the Port-wide risk assessment of internal controls in response to the functionality of the Oracle system.	In progress – The procurement/disbursement, payroll/human resources, projects, asset management and fixed assets risk assessment are completed, with no significant weaknesses noted. The remaining modules (accounts receivable/property management, grants and financial reporting) are scheduled to be completed by March 2013.
Complete a staffing needs assessment in conjunction with the Port-wide risk assessment of internal controls.	In progress – To be completed in conjunction with the risk assessment process.

Recommendation

The Port should complete implementation of the above recommendations.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
FEDERAL AWARDS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Management Response

Port management and staff made significant progress over the last year in working through and resolving several concerns with its Oracle ERP system. Staff's focus was on resolving the highest risk and most critical business areas first. The Port successfully resolved all of the 17 procurement concerns identified last year, which included hiring dedicated staff, documenting proper procurement procedures, training all Port staff on proper procedures and responsibilities and correcting ineffective configuration. In other departments, payroll developed a procedures checklist that streamlined the excessive and hard to follow training manual. The payroll checklist now provides an easy to use control check for payroll processing. Accounts receivable has also refined their process by developing upload templates for tenant business activities. The refined process reduces the opportunity for data entry or data conversion errors.

Port management and staff continue to be focused on strengthening internal controls in all areas, improving the Oracle ERP system, and refining procedures for efficiency. Internal Audit has completed the majority of the risk assessment with no findings of material weakness in internal control to date. Internal Audit will be completing the remaining risk assessment areas shortly, and Port management will then evaluate next steps with regards to any high risk or critical business areas. Concurrently, Port staff continues to update our procedure documents and evaluate additional training needs of the staff.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
FEDERAL AWARDS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section III Federal Award Findings and Questioned Costs

2012-#2. ARRA Surface Transportation Discretionary Grants for Capital Investment – TIGER Grants – Activities Allowed or Unallowed.

Program Identification:

Awarding Agency: United States Department of Transportation
Program: ARRA Surface Transportation Discretionary Grants for Capital Investments – TIGER Grants
CFDA: 20.932
Award Number: Marad Tiger Grant #6
Award Year: FYE 6/30/2012

Criteria:

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Attachment A specifies the general criteria that must be met for costs to be allowable under federal awards.

Condition Identified and Perspective:

We randomly selected and tested 40 payroll transactions out of a population of approximately 250 payroll transactions. We found 9 transactions in which the hourly pay rate of two employees that charged to the grant did not agree with the employees' pay rate per personnel records.

Questioned Costs:

Known questioned costs for the 9 transactions is not applicable as the results of these errors was an understatement of project expenditures eligible to be applied to the grant of \$13,438.

Asserted Cause and/or Effect:

Related to 4 of the transactions, the Port failed to update the pay rate of an employee in the project cost module of its Oracle system. The remaining 5 transactions were the result of the Port using an average pay rate for all Port electricians versus the actual pay rate of the individual.

Recommendation:

We recommend that the Port ensure pay rates in its project cost module are up to date and in agreement with actual employee pay rates.

Views of Responsible Officials:

Starting December 28, 2012, the employee labor rates process for Projects in Oracle has been modified to update salary rates on a nightly basis automatically. With this change, rate changes in the middle of the pay period or new employee that is hired in the middle of the pay period can be picked up. Prior to this change, updates were done manually and the employee rates in Facilities used a "blended" rate.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
FEDERAL AWARDS SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

2012-#3. Port Security Grant – Reporting

Program Identification:

Awarding Agency: United States Department of Homeland Security
Program: Port Security Grant
CFDA: 97.056
Award Number: 2007-GB-T7-K082
Award Year: FYE 6/30/2012

Criteria:

Office of Management and Budget Circular A-110, *Financial reporting* (2 CFR section 215.52), specifies the general criteria that must be met for financial reporting.

Condition Identified and Perspective:

We randomly selected and tested two quarterly financial reports (SF-425) out of a population of four for the year. We found one report that was missing amounts related to “Expenditures” and “Unobligated balances” on the report.

Questioned Costs:

Known questioned costs is none.

Asserted Cause and/or Effect:

The Port did not provide all required information in the quarterly report.

Recommendation:

We recommend that the Port follow procedures to timely prepare and review required reports for completeness prior to submission.

Views of Responsible Officials:

The SF-425 was submitted through the Federal Emergency Management Agency Payment and Report System. The form does not show previously submitted expenditures and unobligated amounts. Staff recognized this omission and corrected it on subsequent reports. Going forward, staff will be more diligent when completing the form.

PORT OF OAKLAND, CALIFORNIA
 (A Component Unit of the City of Oakland)
PASSENGER FACILITY CHARGES SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2012

Section I Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on the financial statements of the Port:	Unqualified
Internal control over financial reporting:	
◆ Material weakness(es) identified?	Yes
◆ Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

Passenger Facility Charges

Internal control over the program:	
◆ Material weakness(es) identified?	No
◆ Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for Passenger Facility Charges program	Unqualified

Section II Financial Statement Findings

See Section II of the Federal Awards Schedule of Findings and Questioned Costs.

Section III Passenger Facility Charges Findings and Questioned Costs

No matters were reported.

PORT OF OAKLAND, CALIFORNIA
(A Component Unit of the City of Oakland)
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR
FEDERAL AWARDS AND PASSENGER FACILITY CHARGES
YEAR ENDED JUNE 30, 2012

Findings and Questioned Costs

No matters were reported.