



Office of the Washington State Auditor  
Pat McCarthy

# Passenger Facility Charges Audit Report

## Port of Port Angeles

For the period January 1, 2022 through December 31, 2022

*Published December 18, 2023*

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**Office of the Washington State Auditor  
Pat McCarthy**

December 18, 2023

Board of Commissioners  
Port of Port Angeles  
Port Angeles, Washington

**Report on Passenger Facility Charges**

Please find attached our report on the Port of Port Angeles compliance with requirements applicable to its passenger facility charge program.

In addition to this work, we look at other areas of our audit client's financial condition and operations for compliance with state laws and regulations. The results of those audits will be included in separately issued accountability and financial statement reports.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

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# SCHEDULE OF PASSENGER FACILITY CHARGE PROGRAM FINDINGS AND QUESTIONED COSTS

## Port of Port Angeles January 1, 2022 through December 31, 2022

### **2022-001 The Port did not have adequate controls for ensuring compliance with federal requirements over the Passenger Facility Charges program.**

#### *Background*

The Passenger Facility Charges (PFC) program allows commercial airports controlled by public agencies to collect fees of up to \$4.50 for every eligible passenger. Airports use these fees to fund projects approved by the Federal Aviation Administration (FAA) that enhance safety, security or capacity, reduce noise, or increase air carrier competition.

Public agencies that control commercial service airports submit applications to the FAA for the authority to impose a PFC fee for use on eligible projects. The Port received approval from the FAA on May 8, 2012, to collect \$3 in PFC fees per passenger through April 1, 2014. The FAA later approved an amendment that authorized the Port to continue collecting PFC fees through April 1, 2022.

#### *Description of Condition*

Our audit found the Port continued to collect PFC fees between April 1, 2022, and December 31, 2022, after the PFC application expired, which FAA regulations prohibit. The Port did not effectively monitor the program to ensure that it either submitted a new application before the expiration date or stopped collecting PFC fees when its authority to do so ended.

We consider this internal control deficiency to be a material weakness, which led to material noncompliance.

#### *Cause of Condition*

The Port did not prioritize submitting a new application because management thought the FAA would backdate its approval and allow the Port to use all PFC fees collected after April 1, 2022. The Port also experienced turnover in the position responsible for monitoring this program, which extended the amount of time it took to follow up on its expired application.

### ***Effect of Condition***

The Port collected \$1,399 in unallowable PFC fees between April 1, 2022, and December 31, 2022, while operating on an expired PFC application. This represents 80 percent of all PFC fees the Port collected during the fiscal year.

### ***Recommendation***

We recommend the Port follow federal regulations for collecting PFC fees, as well as work with the FAA to address the issue of the unallowable fees collected in 2022.

### ***Port's Response***

*The Port agrees with the Auditor's finding. Port staff had an incorrect belief that a new PFC agreement could be retroactive which was not correct. The Port is actively working with the FAA to establish a new agreement and safeguards have been put in place to ensure this issue does not reoccur in the future.*

### ***Auditor's Remarks***

We appreciate the steps the Port is taking to resolve this issue. We will review the condition during our next audit.

### ***Applicable Laws and Regulations***

Title 14 *U.S. Code of Federal Regulations* (CFR) Part 158, *Passenger Facility Charges (PFC's)*, establishes federal requirements for public agencies operating a PFC program.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

# INDEPENDENT AUDITOR'S REPORT

## Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance

**Port of Port Angeles**  
**January 1, 2022 through December 31, 2022**

Board of Commissioners  
Port of Port Angeles  
Port Angeles, Washington

### REPORT ON COMPLIANCE FOR PASSENGER FACILITY CHARGES

#### Adverse Opinion

We have audited the compliance of the Port of Port Angeles, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration for its passenger facility charge program for the year ended December 31, 2022.

In our opinion, because of the significance of the matter described below, the Port of Port Angeles did not comply, in all material respects, with the compliance requirements applicable to its passenger facility charge program for the year ended December 31, 2022.

#### Basis for Adverse Opinion

We conducted our audit in accordance with professional auditing standards and the Guide applicable to financial audits. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the schedule section of our report. We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

#### Matter Giving Rise to Adverse Opinion

As described in Finding 2022-001 in the accompanying Schedule of Passenger Facility Charge Program Findings and Questioned Costs, 80 percent of the PFC fees the Port collected during the fiscal year were unallowable because they were collected after the Port's PFC application expired. As a result, the Port did not comply with the requirements regarding Project Cost Allowability, Eligibility Limitations and Special Tests that are applicable to its passenger facility charge program. Compliance with such requirements is necessary, in our opinion, for the Port to comply with requirements applicable to the program.

## **Port's Response to Findings**

The Port's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Passenger Facility Charge Program Findings and Questioned Costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Responsibilities of Management for the Schedule**

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program. 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 Responsibilities for the Audit of the Schedule**

Our objectives are to obtain reasonable assurance about whether the schedule as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with professional auditing standards and the Guide will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedule. Professional auditing standards and the Guide require that we plan the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

Performing an audit in accordance with professional auditing standards and the Guide includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule;
- Obtain an understanding of internal control relevant to the audit 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 Port's internal control. Accordingly, no such opinion is expressed;

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **REPORT ON 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 a 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 above 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Passenger Facility Charge Program Findings and Questioned Costs as Finding 2022-001 that we consider to be a material weakness.

### **Port's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Port's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Passenger Facility Charge Program Findings and Questioned Costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



## **Purpose of this Report**

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. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

## **SCHEDULE OF PASSENGER FACILITY CHARGES**

We have audited the financial statements of the Port of Port Angeles, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated December 12, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Port's financial statements as a whole. The accompanying Schedule of Passenger Facility Charges Collected and Expended is presented for purposes of additional analysis as required by the Guide and is 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 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance 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 and the results of that testing, and not to

provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

December 12, 2023

## FINANCIAL SECTION

**Port of Port Angeles**  
**January 1, 2022 through December 31, 2022**

### SUPPLEMENTARY INFORMATION

Schedule of Passenger Facility Charges Collected, Held and Used and Notes – 2022

**FAIRCHILD INTERNATIONAL AIRPORT**

**SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED**

Year Ended December 31, 2022

|   | Mar-22        | Jun-22        | Sep-22        | Dec-22        | Total             |
|---|---------------|---------------|---------------|---------------|-------------------|
| Unexpended PFCs and Interest, Beginning of Period | \$0.00        | 0.00          | 0.00          | 0.00          | 0.00              |
| Add:  |               |               |               |               |                   |
| PFC Receipts                                      | 242.36        | 385.44        | 668.68        | 446.76        | 1,743.24          |
| Interest Earned                                   | 0.00          | 0.00          | 0.00          | 0.00          | 0.00              |
| <b>Total</b>                                      | <b>242.36</b> | <b>385.44</b> | <b>668.68</b> | <b>446.76</b> | <b>\$1,743.24</b> |
|   |               |               |               |               |                   |
| Expenses/Expenditures                             | 242.36        | 385.44        | 668.68        | 446.76        | <b>\$1,743.24</b> |
|   |               |               |               |               |                   |
| Unexpended PFC and Interest                       | 0.00          | 0.00          | 0.00          | 0.00          | <b>0.00</b>       |

**NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED, HELD AND USED**

**1. BASIS OF ACCOUNTING**

This schedule is prepared generally on the same basis of accounting as the Airport's financial statements. The Airport uses the cash basis of accounting.

**2. PROGRAM COSTS**

The amounts shown as current year revenues and expenses represent only the Passenger Facilities Charges portion of the project costs. Entire project costs may be more than shown.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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