

*Report on Compliance and Internal Control and Schedule of
Passenger Facility Charges Collected and Expended*

Commonwealth Ports Authority

(A Component Unit of the Commonwealth of the Northern
Mariana Islands)

Year Ended September 30, 2023



Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Report on Compliance and Internal Control and
Schedule of Passenger Facility Charges Collected and Expended

Year Ended September 30, 2023

Contents

Report of Independent Auditors on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance and Report on Schedule of Passenger Facility Charges Collected and Expended Required by the Federal Aviation Administration	1
Schedule of Passenger Facility Charges Collected and Expended	5
Notes to the Schedule of Passenger Facility Charges Collected and Expended	6
Passenger Facility Charge Program Schedule of Findings and Questioned Cost	7
Corrective Action Plan	9
Summary Schedule of Prior Audit Finding.....	10



Ernst & Young (CNMI), Inc.
Suite 209 Oleai Business Center
P.O. Box 503198
Saipan, MP 96950

Tel: +1 670 234 8300
Fax: +1 670 234 8302
ey.com

Report of Independent Auditors on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance and Report on Schedule of Passenger Facility Charges Collected and Expended Required by the Federal Aviation Administration

Management and the Board of Directors
Commonwealth Ports Authority

Report on Compliance for the Passenger Facility Charge Program

Qualified Opinion

We have audited the Commonwealth Ports Authority's (CPA) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide) that could have a direct and material effect on CPA's passenger facility charge program for the year ended September 30, 2023.

Qualified Opinion on the Passenger Facility Charge Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, CPA complied, in all material respects, with the 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, 2023.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of the Guide. Our responsibilities under those standards and the Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CPA and to meet our other ethical responsibilities, in accordance with 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 qualified opinion on compliance for the passenger facility charge program. Our audit does not provide a legal determination of CPA's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on the Passenger Facility Charge Program

As described in item 2023-002 in the accompanying schedule of findings and questioned costs, CPA did not comply with special notification and reporting requirements. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to that program.

Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to the passenger facility charge program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to the CPA's passenger facility charge program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CPA's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CPA's compliance with the requirements of the passenger facility charge program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 CPA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- obtain an understanding of CPA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 CPA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Guide and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on passenger facility charge program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on CPA's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. CPA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 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 the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a material weakness.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Schedule of Passenger Facility Charges Collected and Expended

Each Quarter and for the Year Ended September 30, 2023

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

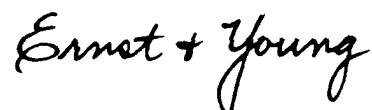
Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures CPA's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. CPA's response was not subjected to the other 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.

Report on Schedule of Passenger Facility Charges Collected and Expended

We have audited the financial statements of CPA as of and for the year ended September 30, 2023 and have issued our report thereon dated May 7, 2025, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the 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 audited 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 schedule of passenger facility charges collected and expended is fairly stated, in all material respects, in relation to the financial statements as a whole.



May 7, 2025

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Schedule of Passenger Facility Charges Collected and Expended

Each Quarter and for the Year Ended September 30, 2023

<u>Description</u>	Beginning Balance Unliquidated <u>PFC</u>	<u>PFC</u> <u>Revenues</u>	Investment <u>Earnings</u>	Total <u>Expenditures</u>	Ending Balance Unliquidated <u>PFC</u>
Cash receipts and disbursements, quarter ended December 31, 2022	\$9,897,902	\$ ---	\$ 190	\$(483,206)	\$9,414,886
Cash receipts and disbursements, quarter ended March 31, 2023	9,414,886	---	613	(46,736)	9,368,763
Cash receipts and disbursements, quarter ended June 30, 2023	9,368,763	---	851	(96,093)	9,273,521
Cash receipts and disbursement, quarter ended September 30, 2023	9,273,521	<u>---</u>	<u>832</u>	<u>(90,481)</u>	9,183,872
Total		<u>\$ ---</u>	<u>\$ 2,486</u>	<u>\$(716,516)</u>	

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Passenger Facility Charge Program Schedule of Findings and Questioned Costs

Year Ended September 30, 2023

1. Description of the Program

In 1990, the United States (U.S.) Congress enacted the Aviation Safety and Capacity Expansion Act of 1990, which allows public agencies controlling commercial service airports to charge eligible enplaning passengers at the airport a \$1, \$2 or \$3 passenger facility charge (PFC). In 2000, the U.S. Congress passed the Aviation Investment and Reform Act for the 21st Century, which allowed airports to levy a PFC of \$4.00 or \$4.50 per eligible enplaned passenger.

On October 15, 2004, the Federal Aviation Administration (FAA) approved the Commonwealth Ports Authority's (CPA) application to impose and collect PFC of \$4.50 per passenger at the Francisco C. Ada Saipan International Airport (GSN), Rota International Airport (GRO) and Tinian International Airport (TNI) for use either immediately or in the future for specifically approved airport improvement projects.

Since May 2021, the FAA required CPA to suspend the imposition and collection of PFCs from passengers due to the overcollection of the total amount approved by the FAA for collection.

Accordingly, there were no collections of PFCs for the fiscal year ended September 30, 2023.

As of September 30, 2023, \$34,177,010 total cumulative receipts from October 2004, including interest earned, exceeded the \$30,982,014 total amount approved for collection by \$3,194,996.

As of September 30, 2023, PFC Application 3 is still pending review and approval from the FAA to address the overcollection of PFC funds. Approval from the FAA is necessary to allow CPA to utilize the overcollected PFCs for airport improvements and debt service.

2. Basis of Presentation

The Schedule of Passenger Facility Charges Collected and Expended includes the PFC program activity of CPA and is prepared using the cash basis of accounting. Receipts and income are recorded when cash is received, and expenditures are recorded when cash is disbursed.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Passenger Facility Charge Program Schedule of Findings and Questioned Costs

Year Ended September 30, 2023

Finding No.: 2023-001
Area: Overcollection of PFCs
Questioned Cost: None

Criteria:

In accordance with Section 158.33 of 14 Code of Federal Regulations (CFR) Part 158:

(a) A public agency shall not impose a PFC beyond the lesser of the following:

- 1) 2 years after approval to use PFC revenue on an approved project if the project has not been implemented, or
- 2) 5 years after the charge effective date; or
- 3) 5 years after the FAA's decision on the application (if the charge effective date is more than 60 days after the decision date) if an approved project is not implemented.

(b) If, in the Administrator's judgment, the public agency has not made sufficient progress toward implementation of an approved project within the times specified in paragraph (a) of this section, the Administrator begins termination proceedings under subpart E of this part.

Condition:

Total PFC receipts of \$34,177,010 as of September 30, 2023, of which \$117,227 pertains to interest income, exceeded total approved project costs of \$30,982,014 by \$3,194,996.

Cause:

CPA lacks control over ensuring compliance with Section 158.33 of 14 CFR Part 158.

Effect:

There is a possibility of funding loss and noncompliance with Section 158.33 of 14 CFR Part 158.

Recommendation:

We recommend that CPA comply with the requirements of Section 158.33 of 14 CFR Part 158.

Prior Year Status:

The lack of ensuring compliance with Section 158.33 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2022.

Auditee Response:

Management states agreement with the finding. Refer to separate Corrective Action Plan.



Commonwealth Ports Authority

Main Office: SAIPAN INTERNATIONAL AIRPORT, 2ND Floor Arrival Bldg.

PO BOX 501055•SAIPAN•MP•96950

Phone: (1-670) 237-6500/1 Fax: (1-670) 234-5962

E-Mail Address: cpa.admin@pticom.com Website: www.cnmiports.com



Finding No.: 2023-002
Area: Special Notification and Reporting
Questioned Cost: None

Criteria:

In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFCs for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFCs received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFCs received, interest earned, expenditures, and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project; and the current project schedule. The report must be provided on or before the last day of the calendar month following the calendar quarter or other period agreed by the public agency and collecting carrier.

Conditions:

During the year ended September 30, 2023, CPA reported quarterly PFC collections and disbursements online via the System of Airport Reporting (SOAR). We noted that four (or 33%) of the 12 quarterly reports submitted to the FAA did not reflect all PFC expenditures for the year ended September 30, 2023. Total project expenditures for fiscal year 2023 amounted to \$716,516.

Cause:

CPA lacks controls over ensuring compliance with Section 158.63 of 14 CFR Part 158.

Effect:

There is a possibility of funding loss and noncompliance with Section 158.63 of 14 CFR Part 158.

Recommendation:

We recommend that CPA comply with the requirements of Section 158.63 of 14 CFR Part 158.

Prior Year Status:

Noncompliance with Section 158.63 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2021.

Auditee Response:

Management states agreement with the finding. Refer to separate Corrective Action Plan.

Captain George F. Fleming Building
Port of Saipan
PO Box 501055, Saipan, MP 96950
Tel. (670) 664-3550/8 Fax. (670) 322-4710

Benjamin T. Manglona International Airport
Thomas C. Mendiola Commercial Seaport
PO Box 561, Rota, MP 96951
Tel. (670) 532-9497 Fax. (670) 532-9499

Francisco M. Borja International Airport
Jose P. San Nicolas Commercial Seaport
PO Box 235, Tinian, MP 96952
Tel. (670) 433-9294 Fax. (670) 433-0790



Commonwealth Ports Authority

Main Office: SAIPAN INTERNATIONAL AIRPORT, 2ND Floor Arrival Bldg.

PO BOX 501055•SAIPAN•MP•96950

Phone: (1-670) 237-6500/1 Fax: (1-670) 234-5962

E-Mail Address: cpa.admin@pticom.com Website: www.cnmiports.com



CORRECTIVE ACTION PLAN:

Finding No. 2023-001

Name of Contact Person: Sheryl Sizemore, Comptroller
Zack Diaz, Internal Auditor
Ida Debrum, Accounting Manager

Corrective Action:

CPA agrees with this finding. CPA has ceased PFC collections. CPA hired a technical consultant to prepare PFC Application 3 for the overcollection of PFC funds. PFC Application 3 has been submitted to the Federal Aviation Administration for review of the project listing.

Proposed Completion Date: Fiscal Year 2025

Finding No. 2023-002

Name of Contact Person: Sheryl Sizemore, Comptroller
Zack Diaz, Internal Auditor
Ida Debrum, Accounting Manager

Corrective Action:

CPA agrees with this finding. Due to the resignation of the former comptroller, the figures for FY2023 were not inputted in SOAR. CPA will ensure the figures are inputted in a timely manner.

Proposed Completion Date: Fiscal Year 2025

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Summary Schedule of Prior Audit Finding

Year Ended September 30, 2023

<u>Finding Number</u>	<u>Requirement</u>	<u>Status</u>
2022-001	Overcollection of PFCs	Unresolved – see Finding 2023-001