

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2012

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

The Board of Directors
Port Authority of Guam:

We have audited the financial statements of Port Authority of Guam (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 15, 2013. 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 Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 15, 2013.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the Authority, the Board of Directors, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.



February 15, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors
Port Authority of Guam:

Compliance

We have audited the Port Authority of Guam's (the Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal programs for the year ended September 30, 2012. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 7). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority 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 for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal 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 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 a federal 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 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Port Authority of Guam as of and for the year ended September 30, 2012, and have issued our report thereon dated February 15, 2013 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic 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 basic 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 is fairly stated in all material respects in relation to the financial statements as a whole.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response, and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management of the Authority, the Board of Directors, others within the entity, the Office of Public Accountability - Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.



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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

<u>CFDA #</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
	<u>U.S. Department of Defense</u>	
12.607	Pass through Government of Guam Office of the Governor: Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	\$ 905,127
	<u>U.S. Department of the Interior</u>	
15.605	Pass through Government of Guam Department of Administration: Sport Fish Restoration Program	62,147
15.875	Economic, Social and Political Development of the Territories: Port Modernization Plan	1,844,975 *
	U.S. Department of Interior Totals	<u>1,907,122</u>
	<u>U.S. Department of Homeland Security</u>	
	Direct Programs:	
97.056	Port Security Grant Program	949,373 *
97.116	ARRA - Port Security Grant Program	18,887
	Subtotal Direct Programs	968,260
97.067	Pass through Government of Guam Department of Administration: Homeland Security Grant Program	50,000 *
	U.S. Department of Homeland Security Total	<u>1,018,260</u>
	Total Federal Awards Expended	<u>\$ 3,830,509</u>

* Denotes a major program.

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Audit

The Port Authority of Guam (the Authority) is a component unit of the Government of Guam created by Public Law 13-87 as an autonomous agency of the Government of Guam. Only the federal expenditures of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Authority's cognizant agency for the Single Audit.

Programs Subject to Single Audit

A Schedule of Expenditures of Federal Awards present for each Federal program related to the following agencies:

- U.S. Department of Defense
- U.S. Department of the Interior
- U.S. Department of Homeland Security

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

The Authority recognizes contributions from the federal government when qualifying expenditures are incurred and expenditures are recognized on the accrual basis of accounting.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2012, the Authority's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2012 Expenditures</u>
97.116 Port Security Grant Program – ARRA	\$ 910,594	\$ 18,887

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | No |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. Identification of major programs: | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 15.875 | Economic, Social and Political Development of the Territories:
Port Modernization Plan |
| 97.056 | Port Security Grant Program |
| 97.067 | Homeland Security Grant Program |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II – Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>
2012-1	Local Noncompliance - Procurement

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-1
Area: Local Noncompliance - Procurement

Criteria: The Guam Procurement Regulations require that for small purchases of supplies or services between \$500 and \$15,000, no less than three positive written quotations shall be solicited, recorded and placed in the procurement file. Awards shall be made to the lowest responsible and responsive bidder. Further, the names of the entity and authorized personnel submitting quotations to include the date and amount of each quotations shall be recorded and maintained as a public record.

Condition: Of eighteen expenses tested, evidence of procurement for gas card purchases for one \$7,096 item (ref. FUEL#12-006) was not available for examination.

Cause: The cause of the above condition is possible noncompliance with Guam Procurement Regulations.

Effect: The effect of the above condition is incurrence of expenditures that may not have been appropriately procured.

Recommendation: Pertinent documents should be maintained to support procurement rationale.

Auditee Response and Corrective Action: The tested item refers to the Government-wide gas card use for the government fleet. The procurement process for this contract award was conducted and administered by the General Services Agency (GSA). Therefore, the procurement files are managed and stored by the procuring agency. However, in an effort to assist our Auditors to facilitate the examination as part of the audit tasks, the Port has made the request to GSA and coordinated the schedule. No action to be taken by the Port since file management of procurement performed by GSA is not its responsibility.

Name and Job title of responsible personnel: Ms. Claudia S. Acfalle, Chief Procurement Officer

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Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Unresolved Prior Year Findings and Responses

The status of unresolved prior year findings is stated below.

There are no unresolved prior year questioned costs.

Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011:

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

None reported.

Findings and questioned costs – Major Federal Award Programs Audit

Finding No. 2011 – 1 – Not corrected.

Finding No. 2011 – 2 – Not corrected.

Views of Responsible Officials and Planned Corrective Actions on Finding Nos. 2011-1 and 2011-2 related to Cash Management:

The Finance Department regularly checks the assigned bank account for federal funds transferred from the pass-through agency to the Authority's bank account. By the time the actual transfer is recorded in the bank account, a day or two has passed from the posting date. PAG normally aim to make the payment to the vendor three days after being notified that payment has not been received. There are some situations wherein the authorized signatories are not available to sign the check or the wire transfer approval. If the payment is by check, the delay in posting to the vendor's bank account can be attributed to the time the check is picked up and deposited to the vendor's account. These are some of the reasons for the delay of seven to eight days since the time the funds were originally transferred to PAG's account. PAG Finance Department will ensure federal funds received are disbursed within a reasonable time.

Finding No. 2011 – 3 – Corrected.

Finding No. 2011 – 4 – Corrected.