

Compliance and Internal Control

**Antonio B. Won Pat International Airport
Authority, Guam**

(A Component Unit of the Government of Guam)

Year ended September 30, 2018



**Building a better
working world**

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Reports on Compliance and Internal Control

Year ended September 30, 2018

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Report of Independent Auditors 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*

Management and the Board of Directors
Antonio B. Won Pat International Airport Authority, Guam

We have audited, in accordance with auditing standards generally accepted in the United States 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 Antonio B. Won Pat International Airport Authority, Guam (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-002 to be significant deficiency.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Ernst + Young LLP

March 26, 2019



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Management and the Board of Directors
Antonio B. Won Pat International Airport Authority, Guam

Report on Compliance for Each Major Federal Program

We have audited the Antonio B. Won Pat International Airport Authority, Guam's (the Authority) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2018. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of 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, 2018.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. *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 a federal 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 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.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended September 30, 2018, and have issued our report thereon dated March 26, 2019, 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 expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

March 26, 2019

Antonio B. Won Pat International Airport Authority, Guam
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

<u>Grantor/Federal Department Program Title</u>	<u>CFDA No.</u>	<u>Expenditures</u>
U.S. Department of Transportation		
Airport Improvement Program	20.106	\$ <u>6,859,000</u>
Total U.S. Department of Transportation		6,859,000
U.S. Department of Homeland Security		
Checked Baggage Recapitalization Screening Construction Services Project	97.U01	1,069,284
National Explosives Detection Canine Team Program	97.U02	252,500
Law Enforcement Officer Reimbursement Agreement Program	97.U03	<u>160,600</u>
Total U.S. Department of Homeland Security		1,482,384
Total Federal Awards Expended		<u>\$ <u>8,341,384</u></u>

See accompanying notes.

Antonio B. Won Pat International Airport Authority, Guam
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Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2018

1. General

The Antonio B. Won Pat International Airport Authority, Guam (the Authority), was created by Public Law 13-57 (as amended) as a component unit of the Government of Guam. The Authority receives federal awards directly from federal agencies.

The program titles and Catalog of Federal Domestic Assistance (CFDA) numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance*. When no CFDA number has been assigned to a program, the Authority uses a two-digit federal agency identifier followed by U and a two-digit number.

2. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Authority under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Allocation

The Authority has elected not to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414 of the Uniform Guidance. The Authority does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2018.

Antonio B. Won Pat International Airport Authority, Guam
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Schedule of Findings and Questioned Costs

Year ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 Yes X **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes X **No**

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Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditor's Results, continued

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
Dollar threshold used to distinguish between Type A and Type B programs: _____ \$750,000	
Auditee qualified as low risk auditee?	<u> X </u> Yes <u> </u> No

Antonio B. Won Pat International Airport Authority, Guam
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Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

Finding No.: 2018-001

Criteria

Internal controls over work-in-progress (WIP) should exist to ensure that as of the reporting period, WIP close-outs are complete so that (1) reclassification to the appropriate fixed asset category is done and (2) depreciation is properly calculated based on the useful lives and correct dates the assets are placed in service.

Condition

We brought to the attention of the Authority that, as a result of our examination of the WIP schedule, certain WIP projects had no significant movements in the past fiscal years.

The Authority's accounting department revisited the status of all WIP projects in coordination with the engineering department. As a result, the Authority identified \$2.6 million in WIP projects that should have been closed-out in earlier periods.

Cause

There appears to be a lack of sufficient coordination between the engineering and accounting departments to assess the propriety and timeliness of WIP close-outs. The engineering department is responsible for managing and tracking the actual progress of WIP projects, including the determination of whether the WIP projects will have continuing future economic benefit. The accounting department is responsible for the accumulation and maintenance of accounting records including the accuracy of the WIP schedule.

Effect or potential effect:

The Authority's internal control over the financial statement close process did not identify WIP projects that no longer had future economic benefit. Certain WIP projects had no activity for the past prior years, and as such, should have been deemed to be discontinued projects and should have been expensed in prior years. As a result, an adjustment to increase expense by approximately \$1.1 million was recorded as a prior period adjustment.

In addition, \$6.7 million in WIP projects were identified as having been placed-in-service in earlier periods but were not timely closed-out from WIP in the appropriate year. As a result, an adjustment to account for unrecorded depreciation expense by approximately \$535 thousand was recorded as a prior period adjustment.

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Schedule of Findings and Questioned Costs, continued

Recommendation

We recommend that the Authority maintain a WIP control log that would be used to track the various projects and their progress. Additionally, the accounting department should consider reviewing the percentage of completion of projects, as noted in the invoices received from contractors, and inquire with the engineering department on the status to ensure all completed projects are properly accounted. Review of completed projects should, at the least, be done semi-annually. We also recommend the Authority to consider assigning dedicated personnel to manage its WIP control log.

Views of responsible officials:

Management agrees. Please refer to the separate correction action plan.

Antonio B. Won Pat International Airport Authority, Guam
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2018-002

Criteria

14 Code of Federal Regulations (CFR) Part 158.49 “Passenger Facility Charges” (PFC) requires covered air carriers to create one PFC account to cover all PFC’s it collects. The designated PFC account is solely for PFC transactions and the covered air carrier must make all PFC transactions from that account.

Condition

The Authority received remittances from an air carrier, identified as Vendor No. 6367 in the form of a personal check instead of a form of payment from the air carrier’s corporate account designated for PFC remittances. This circumstance transpired for fiscal years 2016, 2017 and 2018.

Cause

The Authority accepts various forms of payment for PFC’s as long as the payment received equals the amount reported in the quarterly schedules submitted by the air carriers.

Effect or potential effect:

The Authority was informed of the irregularity in receiving personal checks as a form of the air carrier’s PFC remittance. This irregularity is caused by alleged embezzlement activity by the Guam based manager of Vendor No. 6367. Upon further investigation, it was determined that, as a result of the alleged embezzlement, the Authority is owed unremitted PFC totaling approximately \$446,000.

Recommendation

The Authority should cease its practice of accepting forms of payments other than from the air carrier’s corporate account. In addition, 14 CFR part 158.69(b) requires each collecting air carrier that collects more than 50,000 PFC’s annually shall provide for an audit at least annually of its PFC account. Although we understand that the Authority has unsuccessfully requested copies of the air carrier’s PFC audit reports, we encourage the Authority to continue its efforts to pursue receipts of these PFC audit reports to reconcile the amounts received against the amounts as shown in the air carrier’s PFC audit report.

Views of responsible officials:

Management agrees. Please refer to the separate correction action plan.

Antonio B. Won Pat International Airport Authority, Guam
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Schedule of Findings and Questioned Costs, continued

Section III - Federal Award Findings and Questioned Costs

No matters were reported.