

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

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

SEPTEMBER 30, 2006

**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**

Board of Directors
Port Authority of Guam:

We have audited the financial statements of the Port Authority of Guam (the Authority) as of and for the year ended September 30, 2006, and have issued our report thereon dated January 12, 2007. 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

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 12, 2007.

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

Deloitte & Touche LLP

January 12, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO 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**

Board of Directors
Port Authority of Guam:

Compliance

We have audited the compliance of the Port Authority of Guam (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 and 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.

As described in item 2006-1 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with the requirement regarding period of availability that is applicable to its Homeland Security Grant Programs (HSGP) (CFDA #97.067). Compliance with such requirement is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-2.

Internal Control Over Compliance

The 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 2006-1 to be a material weakness.

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, 2006, and have issued our report thereon dated January 12, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Expenditures of Federal Awards 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. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



January 12, 2007

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Accrued (Deferred) Balance at September 30, 2005	Cash Receipts and Adjustments	Expenditures	Accrued (Deferred) Balance at September 30, 2006
U.S. DEPARTMENT OF COMMERCE:					
Direct:					
Grants for Public Works and Economic Development Facilities	11.300	\$ -	\$ 405,458	\$ 405,458	\$ -
Total U.S. Department of Commerce		-	405,458	405,458	-
U.S. DEPARTMENT OF HOMELAND SECURITY					
Direct:					
Port Security Grant Program	97.056	358,913	402,513	43,600	-
Passed through Government of Guam:					
Public Assistance Grants	83.544	(68,611)	-	32,182	** (36,429)
Hazard Mitigation Grants	83.548	64,268	160,069	106,176	** 10,375
Homeland Security Grant Program	97.067	21,525	81,525	60,000	** -
Total U.S. Department of Homeland Security		376,095	644,107	241,958	(26,054)
Total Federal Awards		\$ 376,095	\$ 1,049,565	\$ 647,416	\$ (26,054)

** Denotes a major program.

The schedule of expenditures of federal awards was prepared using the accrual basis of accounting.

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Schedule of Findings and Questioned Costs
September 30, 2006

Part I - Summary of Auditors' Results Section

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. A reportable condition in internal control over compliance with requirements applicable to major federal award programs was identified, which is considered to be a material weakness.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Authority's major programs were as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Homeland Security –	
Public Assistance Grant	83.544
Hazard Mitigation Grants	83.548
Homeland Security Grant Programs	97.067

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II -No matters reportable

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2006-1	97.067	Period of Availability	\$60,000
2006-2	83.544/83.548/97.067	Equipment Management	\$ -

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Schedule of Findings and Questioned Costs
September 30, 2006

Finding No.: 2006-1
CFDA Program: 97.067 Homeland Security Grant Programs (HSGP)
Agency: U.S. Department of Homeland Security, "Passed through the Government of Guam"
Grant #: 2004-GE-T4-0032
Requirement: Period of Availability
Questioned Costs: \$60,000

Criteria:

In accordance with applicable period of availability requirements, project expenditures should be obligated and liquidated prior to the Memorandum of Understanding's project completion date of November 30, 2005.

Condition:

For all program expenditures, aggregating \$60,000, funds were obligated per a purchase order on December 22, 2005 and were liquidated on May 12, 2006, after the program project completion date per the Memorandum of Understanding of November 30, 2005, as follows:

<u>Description</u>	<u>CK #</u>	<u>Ck Date</u>	<u>Locally Funded</u>	<u>Federally Funded</u>	<u>Amount</u>
Consultant services	67145	5/12/06			\$55,976
Consultant services	67251	5/19/06			13,994
			<u>\$9,970</u>	<u>\$60,000</u>	<u>\$69,970</u>

Cause:

There appears to be weak internal controls over ensuring compliance with applicable period of availability requirements. The Authority failed to obligate and liquidate the grant amount within the project completion date and no extension was requested and approved for expenditures subsequent to the project completion date.

Effect:

The entity is in noncompliance with applicable period of availability requirements. A questioned cost of \$60,000 exists.

Recommendation:

The entity should strengthen internal controls to ensure compliance with applicable period of availability requirements. The responsible personnel should determine when the period of availability expires for the program and should not approve the obligation or liquidation of program funds after such date, or should proceed only after receiving Grantor approval.

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Schedule of Findings and Questioned Costs
September 30, 2006

Auditee Response and Corrective Action Plan:

The Port Authority has been working with the point of contact at the Homeland Security office, who was aware that the project was on-going and completed in May, 2006. After the project was completed and paid by PAG, documentation was submitted to Homeland Security requesting for payment of the grant. This was approved through the reimbursement made by Department of Administration to the Port Authority of Guam.

The corrective plan was to send a memorandum to the Interim Homeland Security Advisor requesting an extension of the MOU for the Comprehensive Vulnerability Assessment Plan until May 31, 2006. We are continuously following up on the response for the extension. We will follow the recommendation that responsible personnel will monitor the period of availability expiration and will not approve any obligation or liquidation after such date without prior Grantor approval.

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Schedule of Findings and Questioned Costs
September 30, 2006

Finding No.: 2006-2
CFDA Program: 83.544 Public Assistance Grant
CFDA Program: 83.548 Hazard Mitigation Grants
CFDA Program: 97.067 Homeland Security Grant Programs (HSGP)
Agency: U.S. Department of Homeland Security, "Passed through the Government of Guam"
Requirement: Equipment Management
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment management requirements, property records must be maintained that include, among other descriptions, the source of the property, who holds title, and percentage of Federal participation in the cost of the property.

Condition:

Although the property manager is cognizant as to which items in the fixed asset register are Federally funded, property records do not document the required descriptions as to the source of the property, who holds title, and percentage of Federal participation in the cost of the property.

Cause:

There appears to be weak internal controls over ensuring compliance with applicable equipment management requirements.

Effect:

The entity is in noncompliance with applicable equipment management requirements.

Recommendation:

The property manager should ensure that the required property description details are documented in the fixed asset register in accordance with applicable equipment management requirements.

Auditee Response and Corrective Action Plan:

The recognition of federal reimbursements is booked as a non operating federal grants income. This is supported by the authorized drawdown by the Federal Agency or the Local Government Coordinating office. Each of the federal projects is filed with the vendor's invoice and other supporting documents regarding the project. The Port Authority concurs with the recommendation that federally funded equipments or properties should indicate the source of the property, who holds title and percentage of Federal participation in the cost of the property. This process will commence in fiscal year 2007 for any new equipment that is federally funded and the current assets that are in the Fixed Assets Listing will indicate the federal source and the percentage of federal participation.

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2006

There are no unresolved prior year findings.