

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

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

SEPTEMBER 30, 2008

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, 2008, and have issued our report thereon dated January 26, 2009. 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 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 *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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 26, 2009.

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, 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.

Deloitte & Touche LLP

January 26, 2009

**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, 2008. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. 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 2008-1 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with the requirement regarding procurement and suspension and debarment that are applicable to its Port Security Grant Program (CFDA #97.056). Compliance with such requirements 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, 2008.

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 the 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a material weakness.

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.

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, 2008, and have issued our report thereon dated January 26, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 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, 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.

Deloitte & Touche LLP

January 26, 2009

PORT AUTHORITY OF GUAM
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF DEFENSE:		
Pass through Government of Guam Office of the Governor: Growth Management Planning Assistance	12.613	\$ 266,666 **
DEPARTMENT OF THE INTERIOR:		
Pass through Government of Guam Department of Administration: Economic, Social and Political Development of the Territories	15.875	122,992
DEPARTMENT OF HOMELAND SECURITY:		
Direct:		
Port Security Grant Program	97.056	64,276 **
Pass through Government of Guam Department of Administration:		
Public Assistance Grants	97.036	46,583
Homeland Security Information Technology and Evaluation Program	97.066	8,850
State Homeland Security Program (SHSP)	97.073	59,683
Total Federal Awards		\$ <u><u>569,050</u></u>

** Denotes a major program.

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

PORT AUTHORITY OF GUAM
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Schedule of Findings and Questioned Costs
September 30, 2008

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 that is not considered to be a material weakness? | None reported |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | Internal control over major programs: | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|--------|---------------------------------------|--------|-----------------------------|--|
| 5. Material weakness(es) identified? | Yes | | | | | | |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported | | | | | | |
| 7. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes | | | | | | |
| 8. Type of auditors' report issued on compliance for major programs: | | | | | | | |
| CFDA Program 97.056 | Qualified | | | | | | |
| All other major programs | Unqualified | | | | | | |
| 9. The Authority's major programs were as follows: | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>CFDA Numbers</u></th> <th style="text-align: left;"><u>Name of Federal Program or Cluster</u></th> </tr> </thead> <tbody> <tr> <td>12.613</td> <td>Growth Management Planning Assistance</td> </tr> <tr> <td>97.056</td> <td>Port Security Grant Program</td> </tr> </tbody> </table> | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | 12.613 | Growth Management Planning Assistance | 97.056 | Port Security Grant Program | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | | | | | | |
| 12.613 | Growth Management Planning Assistance | | | | | | |
| 97.056 | Port Security Grant Program | | | | | | |
| 10. Dollar threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133: | \$300,000 | | | | | | |
| 11. The Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133? | No | | | | | | |

Part II -No matters reportable

Part III - Federal Award Findings and Questioned Cost Section

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2008-1	97.056	Procurement and Suspension and Debarment	\$64,276

PORT AUTHORITY OF GUAM
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Schedule of Findings and Questioned Costs
September 30, 2008

Finding No.: 2008-1
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.056 Port Security Grant Program
Grant Number: HSTS04-04-G-GPS607
Area: Procurement and Suspension and Debarment
Questioned Costs: \$64,276

Criteria:

In accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

We tested the sole procurement transaction for the program, noting sole source procurement was used and was based on the rationale that (1) the vendor was the only distributor/agent, (2) the program required compatibility of equipment, accessories, or replacement parts, and (3) the items, equipment or materials were standard and uniform to the government. However, there is no documentation on file to indicate how the grantee determined that no other vendor could provide the required equipment for the following:

<u>Tran Date</u>	<u>Tran #</u>	<u>Vendor #</u>	<u>Amount</u>
08/22/08	73727	13178	\$ 64,276

Cause:

There appears to be inadequate documentation reflecting internal controls over compliance with applicable procurement requirements.

Effect:

The Port Authority of Guam is in noncompliance with applicable procurement requirements. A questioned cost of \$64,276 exists.

Recommendation:

Port Authority of Guam management should strengthen established procurement regulations.

Auditee Response and Corrective Action Plan:

The rationale that GSA used to approve the Port close circuit TV (CCTV) sole source procurement was based on many previous CCTV procurements made by Guam Homeland Security.

PORT AUTHORITY OF GUAM
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Schedule of Findings and Questioned Costs
September 30, 2008

Finding No.: 2008-1, Continued
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.056 Port Security Grant Program
Grant Number: HSTS04-04-G-GPS607
Area: Procurement and Suspension and Debarment
Questioned Costs: \$64,276

Auditee Response and Corrective Action Plan, Continued:

In their effort to standardize emergency managers' and 1st responders' equipment based on guidance and requirements from the US DHS National Preparedness Goal, GHS worked towards this objective with projects that are similar in scope.

With regards to the acquisition of security surveillance systems for several government entities, the initial purchases were based on a GSA bid process. Several local companies submitted their packets and PACAIR was selected. The first GHS US DHS funded CCTV project was for GPA's critical sites. Thereafter other agencies approved for CCTV funding were also processed by GSA and based on GHS objective to attain interoperability and standardization of equipment, a sole source procurement process was adopted by GSA. Two of several agencies that went through this process is the Guam Memorial Hospital and GSA itself for its facility in Piti.

In light of this process and the fact that there was a precedent letter out of GHS (copies can be obtained at GSA), the Port also utilized this procurement avenue. We compiled the sole source procurement packet that included all the documents that GSA needed and submitted it for their consideration. Having met all the necessary requirements, GSA approved the purchase.

As the former Grants Manager of GHS' Homeland Security Grant Program from 2003 through 2006 and in coordination with GSA, we had to provide [the auditors] annual justifications for similar audit questions on sole source procurement for the CCTVs that were installed in several government agencies.

To justify the Port's sole source procurement of its CCTV system, GSA (like in the past) can provide the documentation that the auditors may need. The contact person who is intimately knowledgeable with this concern is Ms. Anita Cruz and Chief Procurement Officer Ms. Claudia Acfalle herself. Angel can obtain these documents from GSA for the Port.

Auditor Response:

We understand the procurement process followed by the Port. However, no documentation was provided to demonstrate how the Port determined that no other vendor existing in FY 2008 could provide the required goods. Additionally, similar procurements executed by the Government of Guam cited above resulted in questioned costs. Therefore, the finding remains.

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2008

There are no unresolved prior year findings.