

Compliance and Internal Control

Port Authority of Guam

(A Component Unit of the Government of Guam)

Year ended September 30, 2023



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(A Component Unit of the Government of Guam)

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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
Port Authority of Guam:

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2023, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated July 24, 2024.

Report on 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) as a basis for designing 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 Authority’s internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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*.

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 results 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

July 24, 2024

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
Port Authority of Guam

Report of Independent Auditors on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Port Authority of Guam's (the Authority's) compliance with the types of compliance requirements identified as subject to audit in the U.S. 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the 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 audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

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 grant agreements applicable to the Authority's federal programs.

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 the Authority'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 Uniform Guidance 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 the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, 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 the Authority'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 the Authority'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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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.

Report on 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 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 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 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. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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, 2023, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements. We issued our report thereon dated July 24, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. 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 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

July 24, 2024

Port Authority of Guam
(A Component Unit of the Government of Guam)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

Assistance Listing Number	Pass-Through Entity Identifying Numbers	Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Expenditures
<u>U.S. Department of Defense - Office of Economic Adjustment</u>			
Pass-Through Program From Government of Guam Office of the Governor:			
12.618	GR882-20-06	Community Economic Adjustment Assistance for Establishment or Expansion of a Military Installation	\$ 155,305
12.618	GR882-21-08	Community Economic Adjustment Assistance for Establishment or Expansion of a Military Installation	712,227
12.618	GR882-22-02	Community Economic Adjustment Assistance for Establishment or Expansion of a Military Installation	<u>274,672</u>
U.S. Department of Defense Total			<u>1,142,204</u>
<u>U.S. Department of Interior</u>			
Direct Program:			
15.875	Not applicable	Economic, Social, and Political Development of the Territories	\$ 112
Subtotal U.S. Department of Interior Direct			<u>112</u>
Pass-Through Program From Government of Guam Office of the Governor:			
Fish and Wildlife Cluster:			
15.605	F19AF01199-02	Sport Fish Restoration	339,708
15.605	F19AF01210-03	Sport Fish Restoration	<u>40,000</u>
Fish and Wildlife Cluster Total			<u>379,708</u>
15.622	F19AP003344	Sportfishing and Boating Safety Act	<u>621,348</u>
Subtotal U.S. Department of Interior Pass-through			<u>1,001,056</u>
U.S. Department of Interior Total			<u>1,001,168</u>
<u>U.S. Department of Transportation</u>			
Direct Programs:			
Highway Safety Cluster:			
20.600	Not applicable	State and Community Highway Safety	\$ 19,686
Highway Safety Cluster Total			<u>19,686</u>
20.816	Not applicable	United States Marine Highway Grants	1,681,875
20.822	Not applicable	Port of Guam Improvement Enterprise Program	<u>112,336</u>
U.S. Department of Transportation Total			<u>1,813,897</u>
<u>U.S. Department of Homeland Security</u>			
Direct Programs:			
97.026	Not applicable	Emergency Management Institute Training Assistance	\$ 36,092
97.026	Not applicable	COVID-19 Emergency Management Institute Training Assistance	14,861
97.036	Not applicable	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	241,614
97.056	Not applicable	Port Security Grant Program	<u>302,831</u>
U.S. Department of Homeland Security Total			<u>595,398</u>
Total Expenditures of Federal Awards			<u>\$ 4,552,667</u>

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Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

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 transactions of the Authority are included within the scope of the Single Audit.

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, 2023. 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 net position, changes in net position or cash flows of the Authority.

3. Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. All expenses and capital outlays are reported as expenditures. 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. Pass-through entity identifying numbers are presented where available. The Authority has not elected to use the 10-percent de-minimis indirect cost rate allowed under the Uniform Guidance.

Port Authority of Guam
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Schedule of Findings and Questioned Costs

Year ended September 30, 2023

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?

_____ **Yes** X **No**

Significant deficiency(ies) identified?

_____ **Yes** X **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 program

Unmodified

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

_____ **Yes** X **No**

Identification of major federal programs:

Assistance Listing number

Name of federal program or cluster

12.618

Community Economic Adjustment Assistance for Establishment or Expansion of a Military Installation

20.816

United States Marine Highway Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ **Yes** X **No**

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.