

**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, 2016

**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, in accordance with the 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, the financial statements of 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, 2016, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2017.

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.

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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

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.

The signature is written in a cursive, handwritten style in black ink. It reads "Deloitte + Touche LLP".

February 13, 2017

INDEPENDENT AUDITORS' REPORT 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

The Board of Directors
Port Authority of Guam:

Report on Compliance for Each Major Federal Program

We have audited Port Authority of Guam's (the Authority's) compliance with the types of compliance requirements described in the *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, 2016. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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 of America; 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, 2016.

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Port Authority of Guam as of and for the year ended September 30, 2016, and have issued our report thereon dated February 13, 2017, 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 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.



February 13, 2017

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

CFDA #	Other Identification Number	Agency/Program	Federal Expenditures
		<u>U.S. Department of Agriculture</u>	
		Direct Program:	
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY11	\$ 2,673,302
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY13	10,524,501
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY15	<u>1,958,020</u>
		U.S. Department of Agriculture Total	<u>15,155,823</u>
		<u>U.S. Department of Defense</u>	
12.607	P0747301	Pass through Government of Guam Office of the Governor: Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	<u>624,266</u>
		U.S. Department of Defense Total	<u>624,266</u>
		<u>U.S. Department of the Interior</u>	
15.605	P0747301	Pass through Government of Guam Department of Administration: Sport Fish Restoration	57,819
15.616		Clean Vessel Act	57,919
15.622		Sportfishing and Boating Safety Act	<u>3,600</u>
		U.S. Department of the Interior Total	<u>119,338</u>
		<u>U.S. Department of Transportation</u>	
20.205	P0747301	Pass-through the Government of Guam Department of Public Works: Highway Planning and Construction Cluster: Highway Planning and Construction	1,513,400
20.600	Not applicable	Direct Program: State and Community Highway Safety Cluster: State and Community Highway Safety	<u>12,465</u>
		U.S. Department of Transportation Total	<u>1,525,865</u>
		<u>U.S. Department of Homeland Security</u>	
		Direct Programs:	
97.026	Not applicable	Emergency Management Institute Training Assistance	2,000
97.036	Not applicable	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	50,219
97.056	Not applicable	Port Security Grant Program	<u>743,935</u>
		U.S. Department of Homeland Security Total	<u>796,154</u>
		Total Federal Awards	<u>\$ 18,221,446</u>

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, 2016

(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.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

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

(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 the Uniform Guidance. All expenses, capital outlays and loan proceeds are reported as expenditures.

The Authority recognizes contributions from the federal government when qualifying expenditures are incurred.

(3) Noncash Awards

Pursuant to the Fixing America's Surface Transportation Act (FAST Act), 23 U.S.C 104, the Authority entered into a Memorandum of Agreement with the Government of Guam Department of Public Works, to lead the replacement of the welded steel petroleum distribution piping and appurtenances. The project was completed, turned over to, and accepted by the Authority on November 13, 2015.

(4) Loans or Loan Guarantee Programs

The Authority has three outstanding loans guaranteed by the U.S. Department of Agriculture. The outstanding balances as of September 30, 2016 are included below.

Rural Development Loan Guarantee: FY11	\$	2,473,893
Rural Development Loan Guarantee: FY13		9,925,985
Rural Development Loan Guarantee: FY15		<u>1,700,752</u>
Total outstanding loans	\$	<u>14,100,630</u>

(5) Indirect Cost Rate

The Authority has not elected to use the 10% de minimis cost rate.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| Internal control over major federal programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 516(a) of the Uniform Guidance? | Yes |
| 9. Identification of major federal programs: | |

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
10. Unknown	Rural Development Loan Guarantee
20.205	Highway Planning and Construction

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>Findings</u>
2016-001	Special Tests and Provisions

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.Unknown Rural Development Loan Guarantee
Award No.: 2013 USDA Loan Guarantee
Area: Special Tests and Provisions – Detailed unaudited financial statement submission
Questioned Cost: \$0

Criteria: Per Article 6.1(B) of 2013 USDA loan agreement, the Borrower (the Authority) agrees that it will provide detailed unaudited financial statements to the Lender and to the U.S. Department of Agriculture Rural Development within forty-five (45) days after the end of each quarter.

Condition: The Authority has not submitted quarterly unaudited financial statements in fiscal year 2016 to the U.S. Department of Agriculture Rural Development. The Authority has transmitted quarterly unaudited reports to the lender.

Cause: The Authority overlooked such requirement.

Effect: The Authority is in noncompliance with special tests and provisions.

Recommendation: The Authority should implement monitoring controls so that all required reports are submitted.

Auditee Response and Corrective Action: The Port recently sent the required unaudited quarterly financial statements to USDA. The Port has placed this requirement on the report requirement listing to ensure that the reports are submitted to be in compliance.

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Schedule of Prior Audit Findings
Year Ended September 30, 2016

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

No matters were reported.

Findings and questioned costs – Major Federal Award Programs Audit

No matters were reported.