



Compliance and Internal Control

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

Year ended September 30, 2012

Ernst & Young LLP

Antonio B. Won Pat International Airport Authority, Guam

Reports on Compliance and Internal Control

Year ended September 30, 2012

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**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***

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

We have audited the financial statements of the Antonio B. Won Pat International Airport Authority, Guam (the Authority), as of and for the year ended September 30, 2012, and have issued our report thereon dated January 29, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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 to be a material weakness. This finding is listed as 2012-1.

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 29, 2013.

This report is intended solely for the information and use of the Board of Directors and Management of the Authority, the Office of Public Accountability of Guam, others within the entity, federal awarding agencies, and pass-through entities 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.

Ernst + Young LLP

January 29, 2013

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

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

Compliance

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) *Circular A-133 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, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost. 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.

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, 2012.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Authority's response to the findings 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 the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2012, and have issued our report thereon dated January 29, 2013, which contained an unqualified 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 OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Board of Directors and Management of the Authority, others within the entity, the Office of Public Accountability of Guam, federal awarding agencies and pass-through entities 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.

Ernst + Young LLP

January 29, 2013

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 09/30/11	Cash Receipts FY 2012	Allowable Expenditures FY 2012	Receivable from Grantor at 9/30/12	Total Receipts as of 09/30/12	Grant Balance
U.S. Department of Transportation									
Direct Programs:									
Airport Improvement Program:									
Improve Airport Utility Infrastructure (Water System) - Phase 5	20.106	3-66-0001-58	\$ 7,555,815	\$ -	\$ 267,522	\$ 380,531	\$ 113,009	\$ 7,067,522	\$ 488,293
Improve Airport Utility Infrastructure (Electrical System) - Phase 1	20.106	3-66-0001-65	7,000,000	29,133	75,978	402,654	355,809	208,340	6,791,660
Conduct Airport Master Plan Study Update	20.106	3-66-0001-66	700,000	-	215,087	245,169	30,082	558,394	141,606
Noise Mitigation Measures for Residences w/in 65-69 DNL - Phase 5	20.106	3-66-0001-69	2,000,000	29,333	29,333	-	-	878,041	1,121,959
Rehabilitate Runway 6L/24R - Phase1 (Design Only)	20.106	3-66-0001-73	1,500,000	-	92,420	93,749	1,329	1,187,972	312,028
Install Instrument Landing System (ILS) Runway 6L - Phase 1	20.106	3-66-0001-74	2,172,362	38,103	604,980	911,243	344,366	800,475	1,371,887
Noise Mitigation Measures for Residences w/in 65-69 DNL - Phase 6	20.106	3-66-0001-75	2,000,000	-	27,936	27,937	1	61,317	1,938,683
Improve Airport Utility Infrastructure (Sewer & Storm Water Drainage) - Phase 1	20.106	3-66-0001-76	1,550,000	599	2,742	3,836	1,693	3,232	1,546,768
Collect Airport Data for the Airports Geographic Information System (AGIS)	20.106	3-66-0001-77	675,000	11,871	398,923	442,456	55,404	404,306	270,694
Install Instrument Landing System (ILS) Runway 6L - Phase 2	20.106	3-66-0001-78	4,827,638	39,218	1,382,065	1,724,770	381,923	1,388,580	3,439,058
Conduct Environmental Assessment for Sewer and Stormwater Drainage	20.106	3-66-0001-79	700,000	91,491	170,574	88,625	9,542	176,909	523,091
Misc. Airport Improvements - Phase 3 (Demolish Former Naval Housing Units)	20.106	3-66-0001-81	2,304,801	96	2,186	56,341	54,251	2,186	2,302,615
Misc. Airport Improvements - Phase 4 (Demolish Former Naval Housing Units)	20.106	3-66-0001-82	1,400,000	-	1,020	52,467	51,447	1,020	1,398,980
Extend Runway 6L/24R - Phase 10	20.106	3-66-0001-83	2,000,000	-	-	2,000,000	2,000,000	-	2,000,000
Rehabilitate Runway 6L/24R - Phase2	20.106	3-66-0001-84	5,441,024	-	-	-	-	-	5,441,024
Total U.S. Department of Transportation Programs, carried forward			41,826,640	239,844	3,270,766	6,429,778	3,398,856	12,738,294	29,088,346

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Expenditures of Federal Awards, continued

Year ended September 30, 2012

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 09/30/11	Cash Receipts FY 2012	Allowable Expenditures FY 2012	Receivable from Grantor at 9/30/12	Total Receipts as of 09/30/12	Grant Balance
Total U.S. Department of Transportation Programs, brought forward			41,826,640	239,844	3,270,766	6,429,778	3,398,856	12,738,294	29,088,346
Department of Interior									
Regional Aviation Safety and Operations Training Program	15.875	OMIP-GUAM-2009-1	300,000	-	-	-	-	292,653	7,347
Economic Development Administration									
Site Preparation (Grade Elevations) of North Tiyan Properties	11.300	07-01-05790	1,250,000	-	-	-	-	635,505	614,495
Site Grading and Utility Infrastructure Hookups to Develop North Tiyan Aviation Industrial Park	11.300	07-01-06272	1,200,000	-	-	-	-	843,138	356,862
Public Works and Economic Development Facilities Program			2,450,000	-	-	-	-	1,478,643	971,357
Federal Emergency Management Agency:									
Pass-Through Government of Guam: Hazard Mitigation Grant Program: Utility Power Hardening for Critical Airport Facilities	97.039	HMGP DR-1446	5,850,000	-	-	-	-	4,134,855	1,715,145
U.S. Environmental Protection Agency:									
Ground Support Equipment Maintenance Facility; Interceptor Drainage; Former Aircraft Graveyard Site Clean-up	66.818	BF-96984801-0	600,000	-	-	-	-	502,667	97,333
Sub-total awards from the United States Government, carried forward			51,026,640	239,844	3,270,766	6,429,778	3,398,856	19,147,112	31,879,528

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Expenditures of Federal Awards, continued

Year ended September 30, 2012

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 09/30/11	Cash Receipts FY 2012	Allowable Expenditures FY 2012	Receivable from Grantor at 9/30/12	Total Receipts as of 09/30/12	Grant Balance
Sub-total awards from the United States Government, brought forward			51,026,640	239,844	3,270,766	6,429,778	3,398,856	19,147,112	31,879,528
Transportation Security Administration:									
National Explosive Detection Canine Team (NEDCT) Program	97.072	HSTS02-10-H-CAN629	553,500	155,631	313,417	303,000	145,214	408,286	145,214
Law Enforcement Officer (LEO) Reimbursement Agreement Program	97.090	HSTS02-08-H-SLR161	555,246	58,560	125,525	79,298	12,333	542,912	12,334
Transportation Security Administration			1,108,746	214,191	438,942	382,298	157,547	951,198	157,548
Other Transaction Agreement:									
Transportation Security Administration - International Transfer Facility	---	HSTS04-06-A-APO060	2,329,000	-	-	-	-	1,822,627	506,373
Total Awards from the United States Government			\$ 54,464,386	\$ 454,035	\$ 3,709,708	\$ 6,812,076	\$ 3,556,403	\$ 21,920,937	\$ 32,543,449

Non-cash federal awards:

On June 18, 2012, the Authority received a conditional commitment for guarantee from the U.S. Department of Agriculture (USDA) under the Community Facility Guaranteed Loan Program. The total loan amount is \$11,900,000, of which \$5,594,897 was disbursed and is an outstanding obligation as of September 30, 2012. The guarantee, which covers 90% of the loan, will be issued upon completion, with anticipated completion of the project in FY13. See Note 10 of the Notes to the Schedule of Expenditures of Federal Awards

Antonio B. Won Pat International Airport Authority, Guam

Notes to the Schedule of Expenditures of Federal Awards

September 30, 2012

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. Only the federal expenditures of the Authority are included within the scope of the audit. The Authority receives federal awards directly from federal agencies as well as federal awards that are passed through from other governmental agencies.

The federal award program titles and Catalog of Federal Domestic Assistance (CFDA) numbers were obtained from the federal or pass-through grantor or the 2012 *Catalog of Federal Domestic Assistance*.

2. Summary of Significant Accounting Policies

Basis of Accounting

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

For the purpose of this report, certain accounting procedures were followed which facilitate the presentation of the federal cumulative amount of the grant award and federal funds received and disbursed. Cash receipts relate to all cash received from the cognizant federal agency within the CFDA. Cash receipts do not include matching funds from the Authority. All expenses and capital outlays which represent the federal share of each project are reported as expenditures.

The Authority recognizes contributions from the federal government when qualifying expenditures are incurred and expenditures are recognized on the accrual basis of accounting.

Qualifying funds expended in excess of federal funds received are recorded as receivables from the grantor agency.

Matching Requirements

In allocating project expenditures between the federal and local share, a percentage is used based upon local matching requirements unless funds are specifically identified for a certain phase of the project.

Indirect Cost Allocation

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, 2012. The Federal Aviation Administration programs do allow, upon prior grantor approval, certain administrative expenses to be charged against the grants.

Antonio B. Won Pat International Airport Authority, Guam

Notes to the Schedule of Expenditures of Federal Awards, continued

3. Department of Transportation (DOT)

The Authority's Airport Improvement Program (AIP) is funded primarily through grants from the U.S. DOT, through the Federal Aviation Administration (FAA) under CFDA number 20.106.

Cost Allocation

Certain AIP grants have been combined to fund improvements for similar projects. The grants may fund a specific contract for the project or the cost of the contracts may be split between separate grants.

<u>Project Description</u>	<u>AIP Project No.</u> <u>(3-66-0001-xx)</u>
Noise Mitigation Measures for Residences w/in 65-69 DNL	69 and 75
Demolish Former Navy Housing Units in Tiyan	81 and 82
Install ILS from Runway 6L	74 and 78

4. Department of Interior (DOI)

The DOI Operations and Maintenance Improvement Program (OMIP) funds a training program for airport and aviation operations and procedures for airports in the Pacific region. The grant is funded under CFDA 15.875, Economic, Social, and Political Development of Territories.

5. Economic Development Administration (EDA)

The Authority's EDA program is funded through grants from the Department of Commerce under CFDA number 11.300.

6. Federal Emergency Management Agency (FEMA)

The Authority is a sub-recipient of a Hazard Mitigation Grant Program administered by the Guam Homeland Security Office of Civil Defense and is funded through grants from the Department of Homeland Security under CFDA number 97.039.

7. Environmental Protection Agency (U.S. EPA)

The U.S. EPA, through the Office of Solid Waste and Emergency Response, funded the Brownfields Cleanup Cooperative Agreement to reimburse related operating expenses for the clean-up of approved sites. These grants are funded under CFDA number 66.818.

Antonio B. Won Pat International Airport Authority, Guam

Notes to the Schedule of Expenditures of Federal Awards, continued

8. Transportation Security Administration (TSA)

The TSA grants were received to reimburse operating expenses related to the National Explosives Detection Canine Team Program (NEDCT) and the Law Enforcement Officer (LEO) Program, under CFDA number 97.072 and 97.090, respectively.

9. Other Transaction Agreement (OTA)

TSA entered into an OTA with the Authority where TSA reimburses the Authority for certain administrative, design, management and construction costs relating to the relocation of the International Transfer Facility. As this is an OTA, no CFDA number is associated.

10. USDA

In June 2012, the USDA provided the Authority with a conditional commitment for guarantee, Case No. 62-001-893862377, which allowed the Authority to obtain a loan from a financial institution with a preferred interest rate. The loan, which was approved for \$11,900,000, will be used to finance energy efficient upgrades identified in the Authority's recent energy audit. As of September 30, 2012, \$5,594,897 of the loan proceeds were disbursed and remain as an outstanding obligation. The guaranteed loan is for a term of five years on \$11,900,000, with interest-only payments on the first year. The USDA will issue the loan note guarantee upon completion of the project and the facility is certified operational by an appropriate official.

11. Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and local laws and regulations.

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Part I - Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unqualified, qualified, adverse, or disclaimer):

The independent auditor's report expressed an unqualified opinion.

Internal control over financial reporting:

Material weakness(es) identified?

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

Significant deficiency(ies) identified that are not considered to be material weaknesses?

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

Noncompliance material to financial statements noted?

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

Federal Awards Section

Internal control over major 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 programs (unqualified, qualified, adverse, or disclaimer):

The independent auditor's report on compliance for major programs expressed an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

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

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs, continued

Part I - Summary of Auditor's Results, continued

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
10.xxx*	Community Facility Guaranteed Loan

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

\$ 372,000

Auditee qualified as low risk auditee?

 Yes X **No**

*CFDA number has not yet been assigned.

Schedule of Findings and Questioned Costs, continued

Part II - Financial Statement Findings Section

Finding No. 2012-1

Criteria or specific requirement:

Internal controls over the financial statement close process should exist to ensure that as of a reporting period, (1) all assets which an entity holds rights and (2) all liabilities which the entity owes obligations are recorded.

Condition:

As of September 30, 2012, a bank loan with an outstanding balance of approximately \$5.6 million and a contractor billing of approximately \$1.5 million were not discovered by the Authority's internal controls and, accordingly, were not recorded by the Authority.

These liabilities relate to the Authority's energy upgrade project. To finance the project, the Authority obtained an \$11.9 million loan from a commercial bank with the loan conditionally guaranteed by the US Department of Agriculture (USDA) under its Community Facility Program. As of September 30, 2012, loan proceeds of approximately \$5.6 million were disbursed directly by the bank to a contractor.

The loan was obtained on June 27, 2012 and the Authority remitted interest payments to the Bank however the cash disbursement for interest expense incurred was incorrectly recorded as a utility expense.

Context:

The unrecorded loan was discovered through our review of minutes of the Board of Directors meeting held on March 27, 2012. In addition, we verified existence, valuation, and completeness of the loan by obtaining a confirmation received directly from the bank.

The \$1.5 million contractor billing was discovered through our examination of open vendor invoice files.

Effect:

The Authority's internal controls over the financial statement close process did not discover the existence of these transactions. Accordingly, audit adjustments were recorded to account for:

- bank loan obligation of approximately \$5.6 million
- accrued liability of approximately \$1.5 million
- work-in-progress of approximately \$7.1 million

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs, continued

Finding No. 2012-1, continued

Effect, continued:

Although the loan is supported by a conditional guarantee as of September 30, 2012, USDA is to provide the bank with a full note guarantee upon the energy upgrade projects' anticipated completion in August 2013. The Authority expects that by August 2013, USDA will issue the full note guarantee to the bank without any reservations.

OMB Circular A-133 describes such loan guarantees as a form of federal financial assistance. Furthermore, OMB Circular A-133 states that determination of when a federal award is expended should be based on when the activity related to the award occurs. This would be when the loan proceeds are used. Accordingly, since loan proceeds totaling approximately \$5.6 million were used as of September 30, 2012, this loan was included as a footnote to the Authority's Schedule of Federal Expenditures as of September 30, 2012.

Cause:

Disbursements of loan proceeds were made by the bank directly to the contractor. Thus, there was no cash transaction involving the Authority, except for interest payments called for under the loan agreement. Furthermore, examination and approval of contractor billings were performed outside of the Authority's accounting department.

The Authority was of the position that the loan did not meet the definition of a federal financial assistance since USDA provided only a conditional guarantee as of September 30, 2012.

Recommendation:

The Authority should strengthen internal controls over its financial statement close process with the objective of minimizing the possibility that material misstatements will not be prevented, or detected and corrected on a timely basis.

Views of responsible officials and planned corrective actions:

The bank loan was executed in late June 2012 and not a normal function for the Authority. The Authority has not engaged in a bank loan for well over 30 years and the structure of the subject loan which called for the bank to make direct payments to the contractor is not typical to the Authority's processes. The Authority has paid its vendors and contractors directly for decades.

Notwithstanding the above, Authority recognizes that this finding is an isolated oversight and acknowledges that the condition meets, in part, a material weakness with respect to the timely recording of the loan obligation. The Authority believes that during the course of the audit term, which coincides to a large extent with the financial statement close process, the loan obligation oversight would have been detected and corrected.

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs, continued

Finding No. 2012-1, continued

Views of responsible officials and planned corrective actions, continued:

To facilitate subsequent timely recording of the loan obligations, the Authority will include the accounting division in the approval process of the contractor invoices following technical reviews and management approvals but prior to transmittal to the bank. The bank has also been requested to provide copies of remittances and other material information directly to the accounting division.

This finding has been corrected and deemed closed.

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Findings and Questioned Costs, continued

Part III - Federal Award Findings and Questioned Costs Section

There are no material weaknesses, significant deficiencies, material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards related to the September 30, 2012 major programs.

Antonio B. Won Pat International Airport Authority, Guam

Schedule of Prior Audit Findings

Year ended September 30, 2012

Findings in the prior year Audit Report dated January 25, 2012 are as follows:

Federal Award Findings and Questioned Costs

Finding No.: 2011 – 1
CFDA No.: 20.106
Program Name: Airport Improvement Program (AIP)
Grantor Agency: U.S. Department of Transportation
Federal Award No.: 3-66-0001-37/40/43/50/58
Federal Award Name: Improve Airport Utility Infrastructure (Water System)
Federal Award Year: 2002 (AIP 37), 2003 (AIP40), 2004 (AIP 43), 2005 (AIP 50), 2007 (AIP 58)
Area: Activities Allowed or Unallowed
Questioned costs: \$50,000

Finding:

The FAA questioned certain aspects of the Authority's water system, specifically three two-way metering interconnections. As a result, an engineering study was conducted and an estimated \$50,000 was deemed as questioned costs related to the construction of the interconnections.

Status:

The Authority, through discussions with the FAA and a more detailed study, concluded that the actual cost of the interconnections was \$63,834, of which 95% or \$60,642, which represents the federal share of the cost, was paid back to the FAA in June 2012 with check number 0000890. Repayment of the questioned costs resolved the FAA's issues with the water system and as long as the Authority maintains operations solely for airport property, no further issues were noted.

The questioned costs paid to the FAA, totaling \$60,642, was off-set against the grants from the US Government in the Authority's 2012 statement of revenues, expenses and changes in net assets.

Schedule of Prior Audit Findings, continued

Federal Award Findings and Questioned Costs, continued

Finding No.: 2011 – 2
CFDA No.: 20.106
Program Name: Airport Improvement Program (AIP)
Grantor Agency: U.S. Department of Transportation
Federal Award No.: 3-66-0001-58
Federal Award Name: Improve Airport Utility Infrastructure (Water System)
Federal Award Year: 2007
Area: Davis-Bacon Act

Finding:

The Authority was not thorough in its review of certified payrolls. During our audit, we noted the certified payroll attached to Vendor No. 4009 for payment request #13A, payroll periods of September 1, 2010 through June 28, 2011 were not properly prepared. Specifically, there were no positions listed for each individual in the certified payroll.

Status:

The certified payrolls were subsequently corrected and reviewed. There were no further compliance issues with the prevailing wage rates used. There were no similar instances noted during the fiscal year ending September 30, 2012.