

*Compliance and Internal Control*

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

*Year ended September 30, 2009*

Ernst & Young

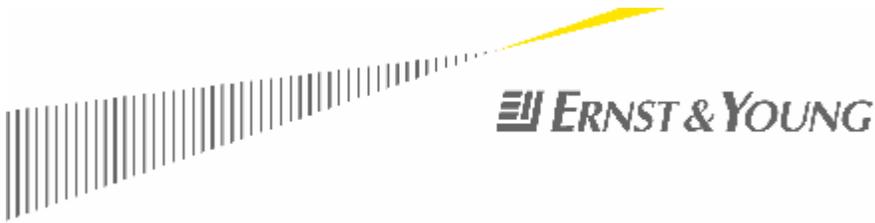
Port Authority of Guam  
(A Component Unit of the Government of Guam)

Reports on Compliance and Internal Control

Year ended September 30, 2009

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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*

The 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, 2009, and have issued our report thereon dated January 29, 2010. 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***

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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 certain deficiencies in internal control that we consider to be material weaknesses.

*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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses. It has been identified as finding number 2009-1.

***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, 2010.

The Authority's responses to the findings identified in our audit are 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.

This report is intended solely for the information and use of the Board of Directors, the Management of the Port Authority of Guam, the Office of Public Accountability, 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, 2010

## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

The 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, 2009. 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. 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; 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 requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

### ***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.

*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.

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.

Our consideration of internal control over compliance 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 compliance that we consider to be a material weakness, as defined above.

### *Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the Authority as of and for the year ended September 30, 2009, and have issued our report thereon dated January 29, 2010. Our audit was performed for the purpose of forming an opinion on the 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. 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, the Management of the Port Authority of Guam, the Office of Public Accountability, 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, 2010

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2009

Federal Grantor, Pass-through Grantor, CFDA Title, Project Name	Federal CFDA Number	FY2009 Expenditures
<b>DEPARTMENT OF DEFENSE:</b>		
Pass-through from the Government of Guam Office of the Governor:		
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607	\$631,463*
<b>DEPARTMENT OF THE INTERIOR:</b>		
Pass-through from the Government of Guam		
Department of Administration:		
Economic, Social, and Political Development of the Territories (GDP Marina Renovation & Site Improvement)	15.875	\$ 56,766
Economic, Social, and Political Development of the Territories (Port Modernization Plan)	15.875	\$ 94,454
<b>DEPARTMENT OF HOMELAND SECURITY:</b>		
Direct award:		
Port Security Grant Program	97.056	\$ 6,150
Pass-through from the Government of Guam		
Department of Administration:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)**	97.036	\$142,540
Total Federal Awards		\$931,373

\* Denotes a major program.

\*\* Public Assistance Grants - These are small project cost overruns in which expenditures occurred in prior years.

*See accompanying Notes to the Schedule of Expenditures of Federal Awards*

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Notes to the Schedule of Expenditures of Federal Awards

September 30, 2009

**1. General**

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 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 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 2009 *Catalog of Federal Domestic Assistance*.

**2. Summary of Significant Accounting Policies**

*Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 OMB Circular A-133.

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

*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, 2009.

**3. Department of Defense**

The Authority's Implementation Plan as identified in the Port Modernization Plan (Master Plan) is funded primarily through grants from the U.S. Department of Defense (through the Office of Economic Adjustment) under CFDA number 12.607 passed through to the Government of Guam Office of the Governor.

The Implementation Plan consists of several task orders that set out the scope of work, cost and completion date. These task orders are funded by the local and federal government.

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Notes to the Schedule of Expenditures of Federal Awards, continued

**3. Department of Defense, continued**

*Grant Allocation*

The grants may fund the entire task order or the cost of the contracts may be split between separate grants. Listed below are all task orders, the cost covered by federal funds and their funding grant numbers:

	<u>SEFA Amount</u>	<u>Funding Grant</u>
TO1 Kick-off & Implementation Plan	\$139,812	GR0706-08-02
TO2 Participation in Industry Forum III	34,000	GR0706-08-02
TO4 Prepare Permit Applications	53,074	GR0706-09-04
TO6 Hydrosurvey	89,974	GR0706-09-04
TO8 Master Plan Approval Documents	1,221	GR0706-09-08
TO9 Terminal Analysis Dev & Oper Plan	44,276	GR0706-09-08
TO10 Truck Gates and TOS Specifications	23,194	GR0706-09-08
TO21 ESA Phase 1	50,080	GR0706-09-04
TO23 Topographic Survey	102,170	GR0706-09-04
TO24 UXO Survey	60,831	GR0706-09-04
TO25 Washington DC Trip Services	32,831	GR0706-09-08
	<u>\$631,463</u>	

**4. Department of Interior**

The U.S. Department of Interior (DOI), through the Government of Guam Department of Administration, funds the renovation and improvement of the Gregorio D. Perez Marina. In addition, certain task orders under the Implementation Plan are funded by DOI grants under CFDA number 15.875, Economic, Social, and Political Development of the Territories.

**5. Department of Homeland Security**

The Authority is a sub-recipient of disaster and public assistance grants and is funded through grants from the Department of Homeland Security (DHS) under CFDA number 97.036. The DHS also provided funds for the Authority's Port Security Grant Program under CFDA number 97.056.

**6. Contingency**

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are 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 local and federal laws and regulations.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2009

**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 deficiencies 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 that are not considered to be material weaknesses?

    **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?

X  **Yes**           **No**

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Schedule of Findings and Questioned Costs, continued

**Part I - Summary of Auditor's Results, continued**

Identification of major programs:

**CFDA Numbers**

12.607

**Name of Federal Program or Cluster**

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

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

\$ 300,000

Auditee qualified as low-risk auditee?

       **Yes**        X   **No**

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Schedule of Findings and Questioned Costs, continued

**Part II - Financial Statement Findings Section**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

**Finding No. 2009-1**

**Internal controls over financial reporting**

**Criteria:**

The controls over the financial statement close process should allow for timely and complete recording of transactions.

**Condition:**

In October 2009, the Authority officials learned of an occurrence of the loading of commercial cargo at a facility other than the Port Authority of Guam commercial port, and that this activity occurred in July 2009. The Authority asserts that Guam Public Law 26-72 requires that all commercial sea cargo moving on and off the island of Guam must be handled by the Port Authority of Guam commercial port.

**Effect:**

There is lack of timely enforcement to require vessels carrying commercial cargo to exclusively utilize the Port Authority of Guam's commercial port facilities. Accordingly, there is a possibility of lost revenues.

**Cause:**

There are ineffective internal controls to monitor and identify in a timely manner, the movement of commercial cargo at non-commercial Port facilities.

**Recommendation:**

Internal control policies and procedures should be implemented to ensure all vessel operations within the Authority's area of jurisdiction are identified and unusual activities are immediately investigated.

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Schedule of Findings and Questioned Costs, continued

**Finding No. 2009-1**

**Internal controls over financial reporting, continued**

**Views of Responsible Officials and Planned Corrective Actions:**

The Port acknowledges this finding. Since the incident was discovered and examined, actions were immediately taken such as:

- a public announcement was made that any commercial cargo coming in or departing Guam shores are to clear through the port
- non-compliance will be penalized as required by law.

A new procedure was established and must be signed off by the Port's Harbor Master when ship agents request to have commercial vessels enter the inner harbor (navy pier). The new procedure explicitly puts all ship agents on notice that no commercial cargo will be discharged or loaded at the inner harbor piers. This new form that will be filled in by the agent for every vessel that comes in the inner harbor certifies that there are no commercial cargos that will be loaded or discharged.

Finance division will prepare a recommended policy or amendment to the existing credit customer policy that cost of operations may be charged only up to their approved credit amount. Any customer who is over their approved credit amount or on a cash basis must deposit the estimated amount of the operations plus 20 percent. Letters of credit or bond conditions must be in compliance with the Port requirements before Operations will be cleared to commence work for the shipping agent.

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Schedule of Findings and Questioned Costs, continued

**Part III - Federal Award Findings and Questioned Costs Section**

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

**None**

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Summary Schedule of Prior Audit Findings

Year Ended September 30, 2009

The finding in the prior year Audit Report dated January 26, 2009 is as follows:

**Finding Number:** 2008-1

**Federal Program Information:**

<b>CFDA No:</b>	97.056
<b>Program Name:</b>	Port Security Grant Program
<b>Grantor Agency:</b>	Department of Homeland Security
<b>Area:</b>	Procurement and Suspension and Debarment

**Finding:** The rationale used by the General Services Agency to approve the Port close circuit TV (CCTV) sole source procurement was based on many previous CCTV procurements made by Guam Homeland Security. However, no documentation was provided to demonstrate how the Port determined that no other vendor existing in FY2008 could provide the required equipment.

**Status:** Resolved as of September 30, 2009.

**Comments:** No similar instance was noted in the 2009 audit.