

GUAM INTERNATIONAL AIRPORT AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Guam International Airport Authority:

We have audited the financial statements of the Guam International Airport Authority (GIAA), as of and for the year ended September 30, 2002, and have issued our report thereon dated March 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether GIAA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GIAA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect GIAA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002-1 through 2002-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers 2002-5, 2002-7, 2002-9 and 2002-13 to be material weaknesses.

This report is intended for the information of the Board of Directors and management of GIAA, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte + Touche LLP

March 21, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors
Guam International Airport Authority:

Compliance

We have audited the compliance of the Guam International Airport Authority (GIAA) 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 its major federal program for the year ended September 30, 2002. GIAA's one major federal program is identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of GIAA's management. Our responsibility is to express an opinion on GIAA'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 GIAA'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 on GIAA's compliance with those requirements.

As described in finding number 2002-16 in the accompanying Schedule of Findings and Questioned Costs, GIAA did not comply with requirements regarding procurement and activities allowed or unallowed that are applicable to its Highway Planning and Construction (CFDA No. 20.205) program. Compliance with such requirements is necessary, in our opinion, for GIAA to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, GIAA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2002.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2002-15 and 2002-17.

Internal Control Over Compliance

The management of GIAA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GIAA's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GIAA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2002-15 through 2002-17.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers 2002-15 through 2002-17 to be material weaknesses.

Schedule of Expenditures of Federal Awards and Statements of Project Costs and Status of Grant Fund Payments

We have audited the financial statements of GIAA as of and for the year ended September 30, 2002, and have issued our report thereon dated March 21, 2003. 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 additional analysis as required by OMB Circular A-133, and the accompanying Statements of Project Costs and Status of Grant Fund Payments (pages 5-20) are presented for purposes of additional analysis. The accompanying schedule and statements described above are not a required part of the financial statements. These schedules and statements are the responsibility of the management of GIAA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended for the information of the Board of Directors and management of GIAA, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.



March 21, 2003

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2002

Federal Program/Project Title	CFDA Number	Project No.	Program or Award Amount	Receivables from Grantor at 10/01/01	Cash Receipts FY 2002	Expenditures FY 2002	Receivables from Grantor at 09/30/02
U.S. Department of Transportation							
Direct Programs:							
Airport Improvement Program:							
Rehabilitate runway 6R/24L	20.106		20.106	3-66-0001-19	\$ 4,608,018	\$ 22,445	\$ -
Construct parallel taxiway (note 3)	20.106		20.106	3-66-0001-21	2,386,699	53,563	-
Construct parallel taxiway (note 3)	20.106		20.106	3-66-0001-22	425,976	8,908	-
Construct noise compatability	20.106		20.106	3-66-0001-23	450,000	107,457	68,858
Construct parallel taxiway (note 3)	20.106		20.106	3-66-0001-24	2,202,325	37,859	-
Construct parallel taxiway (note 3)	20.106		20.106	3-66-0001-25	328,400	6,759	-
Construct loop taxiway (note 3)	20.106		20.106	3-66-0001-26	1,760,013	29,107	-
Rehabilitate runway 6L/24R	20.106		20.106	3-66-0001-27	850,000	-	-
Construct loop taxiway (note 3)	20.106		20.106	3-66-0001-28	5,958,210	136,588	-
Extend and rehabilitate runway 6L/24R	20.106		20.106	3-66-0001-29	4,590,000	69,343	57,288
Update airport master plan study	20.106		20.106	3-66-0001-30	540,000	76,528	-
Acquire land and relocation	20.106		20.106	3-66-0001-31	1,296,226	216,928	216,928
Acquire ARFF Vehicles	20.106		20.106	3-66-0001-32	2,366,608	-	-
Rehabilitate Rwy 6L/24R & Taxiway; Repair Airfield Lighting Vault & Terminal Bldg (earthquake damages)	20.106		20.106	3-66-0001-33	2,130,676	-	-
Compensation of Direct Cost Associated with New & Revised Security Requirements	20.106		20.106	3-66-0001-34	2,182,341	-	2,182,341
Security Enhancements-Phase 1	20.106		20.106	3-66-0001-35	5,454,744	-	-
Rehabilitate TB & ARFF Bldg.; Install Security Fencing; Repair SACS & Misc. Nav Aids (typhoon damages)	20.106		20.106	3-66-0001-36	3,700,000	-	-
Improve Airport Utility Infrastructure (Water System) - Phase 1	20.106		20.106	3-66-0001-37	4,187,450	-	-
Airport Improvement Program Total	20.106		20.106		45,417,686	765,485	2,525,415
Highway Planning and Construction	20.205	GU-AP66(001)			5,743,624	-	-
U.S. Department of Transportation Total			51,161,310		765,485	2,525,415	4,278,420
Federal Emergency Management Agency							
Pass-Through Government of Guam							
Public Assistance Grants	83.544		1,237,090	414,128	-	-	414,128
Total Federal Awards Expended			\$ 52,398,400	\$ 1,179,613	\$ 2,525,415	\$ 4,278,420	\$ 2,932,618

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-19
 Statement of Project Costs and Status of Grant Fund Payments
 Period September 20, 1995 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 5,120,020	\$ 4,859,326
Less Grantee's Share (10%)	<u>(512,002)</u>	<u>(485,933)</u>
FEDERAL SHARE OF PROJECT COSTS	4,608,018	4,373,393
Less Cumulative Federal Cash Received	<u>(4,350,948)</u>	<u>(4,350,948)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 257,070</u>	<u>\$ 22,445</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u> -</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u> -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-21
 Statement of Project Costs and Status of Grant Fund Payments
 Period August 28, 1998 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 2,915,599	\$ 206,438
Less Grantee's Share (25% of last \$2,115,599)	<u>(528,900)</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	2,386,699	206,438
Less Federal Cash Received	<u>(158,937)</u>	<u>(158,937)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 2,227,762</u>	<u>\$ 47,501</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ (6,062)</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-22
 Statement of Project Costs and Status of Grant Fund Payments
 Period March 22, 1999 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 451,301	\$ 34,387
Less Grantee's Share (25% of last \$101,301)	<u>(25,325)</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	425,976	34,387
Less Federal Cash Received	<u>(26,489)</u>	<u>(26,489)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 399,487</u>	<u>\$ 7,898</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ (1,010)</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-23
 Statement of Project Costs and Status of Grant Fund Payments
 Period March 25, 1999 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 450,000	\$ 450,000
Less Grantee's Share	<u> -</u>	<u> -</u>
FEDERAL SHARE OF PROJECT COSTS	450,000	450,000
Less Federal Cash Received	<u> (411,401)</u>	<u> (411,401)</u>
BALANCE DUE FROM GRANT AWARD	<u> 38,599</u>	<u> 38,599</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u> -</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u> 68,858</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-24
 Statement of Project Costs and Status of Grant Fund Payments
 Period March 25, 1999 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 2,936,433	\$ 194,860
Less Grantee's Share (25%)	<u>(734,108)</u>	<u>(48,715)</u>
FEDERAL SHARE OF PROJECT COSTS	2,202,325	146,145
Less Federal Cash Received	<u>(112,580)</u>	<u>(112,580)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 2,089,745</u>	<u>\$ 33,565</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ (4,294)</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-25
 Statement of Project Costs and Status of Grant Fund Payments
 Period June 16, 1999 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 437,867	\$ 34,491
Less Grantee's Share (25%)	<u>(109,467)</u>	<u>(8,623)</u>
FEDERAL SHARE OF PROJECT COSTS	328,400	25,868
Less Cumulative Federal Cash Received	<u>(19,867)</u>	<u>(19,867)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 308,533</u>	<u>\$ 6,001</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u>(758)</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u>-</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-26
 Statement of Project Costs and Status of Grant Fund Payments
 Period June 16, 1999 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 2,346,684	\$ 149,219
Less Grantee's Share (25%)	<u>(586,671)</u>	<u>(37,305)</u>
FEDERAL SHARE OF PROJECT COSTS	1,760,013	111,914
Less Federal Cash Received	<u>(86,091)</u>	<u>(86,091)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 1,673,922</u>	<u>\$ 25,823</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ (3,284)</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
Federal Aviation Administration Project No. 3-66-0001-27
Statement of Project Costs and Status of Grant Fund Payments
Period August 1, 2000 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 850,000	\$ 836,231
Less Federal Cash Received	<u>(836,231)</u>	<u>(836,231)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 13,769</u>	<u>\$ -</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-28
 Statement of Project Costs and Status of Grant Fund Payments
 Period August 4, 2000 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 6,492,456	\$ 527,267
Less Grantee's Share (10% of last \$5,342,456)	<u>(534,246)</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	5,958,210	527,267
Less Federal Cash Received	<u>(406,171)</u>	<u>(406,171)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 5,552,039</u>	<u>\$ 121,096</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ (15,492)</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-29
 Statement of Project Costs and Status of Grant Fund Payments
 Period July 9, 2001 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 4,877,778	\$ 224,343
Less Grantee's Share (10% of last \$2,877,778)	<u>(287,778)</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	4,590,000	224,343
Less Federal Cash Received	<u>(212,288)</u>	<u>(212,288)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 4,377,712</u>	<u>\$ 12,055</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ 57,288</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-30
 Statement of Project Costs and Status of Grant Fund Payments
 Period July 9, 2001 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 600,000	\$ 408,596
Less Grantee's Share (10%)	<u>(60,000)</u>	<u>(40,860)</u>
FEDERAL SHARE OF PROJECT COSTS	540,000	367,736
Less Federal Cash Received	<u>-</u>	<u>-</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 540,000</u>	<u>\$ 367,736</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ 291,208</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
Federal Aviation Administration Project No. 3-66-0001-31
Statement of Project Costs and Status of Grant Fund Payments
Period August 30, 2001 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 1,440,251	\$ 414,521
Less Grantee's Share (10%)	<u>(144,025)</u>	<u>(41,452)</u>
FEDERAL SHARE OF PROJECT COSTS	1,296,226	373,069
Less Federal Cash Received	<u>(216,928)</u>	<u>(216,928)</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 1,079,298</u>	<u>\$ 156,141</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ 156,141</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ 216,928</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-32
 Statement of Project Costs and Status of Grant Fund Payments
 Period September 24, 2001 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 2,629,564	\$ -
Less Grantee's Share (10%)	<u>(262,956)</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	2,366,608	-
Less Federal Cash Received	<u>-</u>	<u>-</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 2,366,608</u>	<u>\$ -</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-33
 Statement of Project Costs and Status of Grant Fund Payments
 Period May 13, 2002 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 2,145,196	\$ 33,500
Less Grantee's Share (10% of last \$145,196)	<u>(14,520)</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	2,130,676	33,500
Less Federal Cash Received	<u>-</u>	<u>-</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 2,130,676</u>	<u>\$ 33,500</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u>33,500</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		\$ <u>-</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
 Federal Aviation Administration Project No. 3-66-0001-34
 Statement of Project Costs and Status of Grant Fund Payments
 Period April 5, 2002 to September 30, 2002

	Approved Budget	Total Allowable Project Costs Incurred
	<u> </u>	<u> </u>
PROJECT COSTS	\$ 2,182,341	\$ 1,598,309
Less Grantee's Share	<u> -</u>	<u> -</u>
FEDERAL SHARE OF PROJECT COSTS	2,182,341	1,598,309
Less Federal Cash Received	<u>(2,182,341)</u>	<u>(2,182,341)</u>
BALANCE DUE FROM GRANT AWARD	<u><u> -</u></u>	<u><u> (584,032)</u></u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u><u> \$ 1,598,309</u></u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u><u> \$ 2,182,341</u></u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.106 Airport Improvement Program
Federal Aviation Administration Project No. 3-66-0001-35
Statement of Project Costs and Status of Grant Fund Payments
Period September 23, 2002 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 6,060,827	\$ 26,463
Less Grantee's Share (10%)	<u>(606,083)</u>	<u>(2,646)</u>
FEDERAL SHARE OF PROJECT COSTS	5,454,744	23,817
Less Federal Cash Received	<u>-</u>	<u>-</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 5,454,744</u>	<u>\$ 23,817</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ 23,817</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

CFDA No. 20.205 Highway Planning and Construction
 Federal Highway Administration Project No. GU-AP66(001)
 Statement of Project Costs and Status of Grant Fund Payments
 Period April 5, 2002 to September 30, 2002

	<u>Approved Budget</u>	<u>Total Allowable Project Costs Incurred</u>
PROJECT COSTS	\$ 5,743,624	\$ 2,206,345
Less Grantee's Share	<u>-</u>	<u>-</u>
FEDERAL SHARE OF PROJECT COSTS	5,743,624	2,206,345
Less Federal Cash Received	<u>-</u>	<u>-</u>
BALANCE DUE FROM GRANT AWARD	<u>\$ 5,743,624</u>	<u>\$ 2,206,345</u>
ALLOWABLE PROJECT COSTS INCURRED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ 2,206,345</u>
FEDERAL CASH RECEIVED - YEAR ENDED SEPTEMBER 30, 2002		<u>\$ -</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards September 30, 2002

(1) Source of Funding

GIAA's Airport Improvement Program and Highway Planning and Construction Program are funded primarily through grants from the U.S. Department of Transportation under Catalog of Federal Domestic Assistance (CFDA) numbers 20.106 and 20.205, respectively.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The Schedule of Expenditures of Federal Awards and the related Statements of Project Costs and Status of Grant Fund Payments are prepared on the accrual basis of accounting.

For purposes 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 Catalog of Federal Domestic Assistance. Cash receipts do not include matching funds from GIAA. All expenses and capital outlays which represent the federal share of each project are reported as expenditures.

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

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

b. 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 to a certain phase of the project.

c. Indirect Cost Allocation

GIAA does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2002. The Federal Aviation Administration programs do allow, upon prior grantor approval, certain administrative expenses to be charged against the grants.

(3) Cost Allocation

Grant numbers 33-66-0001-21, 22, 24, 25, 26 and 28 are commingled to fund construction of parallel taxiway. Qualifying expenditures are allocated among these six grants. The negative current year qualifying expenditures for grant numbers 33-66-0001-21, 22, 24, 25, 26, and 28 are caused by changes in cost allocation between grants in the current year.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards
September 30, 2002

(4) Federal Emergency Management Agency (FEMA)

The FEMA grant for typhoon Paka is received in a subrecipient capacity through the Government of Guam.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2002

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, several of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, all of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Organization's major program is:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Highway Planning and Construction	20.205

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2002-1	Travel Policy	\$ -
2002-2	Travel Advances	\$ -
2002-3	Long Standing Receivable from FEMA	\$ -
2002-4	Bank Reconciliations	\$ -
2002-5	Capital Projects	\$ -
2002-6	Employee Receivables	\$ -
2002-7	Procurement of Construction Contracts	\$ -
2002-8	Unsupported Disbursements	\$ -
2002-9	Procurement and Approval of Consulting Contracts	\$ -
2002-10	Payments to GIAA Employee Organization	\$ -
2002-11	Payments to Subcontractors	\$ -
2002-12	Legal Counsel Contracts	\$ -
2002-13	No Evidence of Service Received	\$ -
2002-14	Budget	\$ -

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2002

Part III - Federal Award Findings and Questioned Cost Section

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2002-15	20.106	Procurement	\$ 322,815
2002-16	20.205	Activities Allowed or Unallowed	368,600
2002-17	20.106	Special Tests and Provisions – Revenue Diversion	<u>2,489,529</u>
		Total Federal Questioned Costs	\$ <u>3,180,944</u>

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-1 – Travel Policy

Criteria:

As an instrumentality of the Government of Guam, the Travel Policy adopted by the Board should conform to the travel policy adopted by the Government of Guam.

Condition:

In May 2000, the Board amended the Travel Policy to change the per diem allowance computation. In September 2001, the Board further amended the Travel Fare and Communications section of the Travel Policy. As a result, the Authority's Travel Policy does not conform to the travel policy as adopted by the Government of Guam.

Cause:

There appears to be a lack of knowledge of the Government travel policy.

Effect:

Unnecessary travel expenses may have been incurred by the Authority.

Recommendation:

We recommend that the Board review the Travel Policy and make necessary changes to bring the Travel Policy in line with GovGuam travel policy.

Auditee Response dated September 23, 2003:

In the GIAA Board of Directors Regular Meeting of June 26, 2003, the Board approved management's recommendation whereby GIAA's travel policy shall be appropriately amended to be consistent with the Government of Guam travel policy.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-2 – Travel Advances

Criteria:

Under section 6.01 of the Travel Policy, all travelers are required to submit a Travel Expense Report to the Authority within ten (10) calendar days after returning from travel. The accounting department should then review invoices supporting the Travel Expense Report to validate charges made and to determine whether a shortage or overage occurred and correspondingly seek reimbursement from/to the traveler.

Condition:

We reviewed nine travel authorizations and noted that a final expense report was either filed late or was not provided for review.

<u>Travel Authorization</u>	<u>Date Returned</u>	<u>Date Filed</u>	<u>Days Late</u>
02-12-63	January 25, 2002	March 5, 2002	29 days
02-02-108	February 27, 2002	Report not dated	Unknown
02-02-108	March 30, 2002	Not available	N/A
02-04-181	May 17, 2002	Not available	N/A
02-04-151	May 12, 2002	October 6, 2002	198 days
02-05-191	May 14, 2002	Not available	N/A
02-07-206	July 31, 2002	March 17, 2003	219 days
02-09-340	October 4, 2002	March 17, 2003	154 days
02-09-341	September 27, 2002	December 6, 2002	60 days

Additionally, the following was not provided for review to support actual amounts claimed by the traveler:

02-02-108	Hotel invoice was not provided for review
02-04-151	Car rental invoice was not provided for review

For travel authorization # 02-09-341, we noted that the traveler requested reimbursement of the entire hotel invoice, which includes disallowed incidental charges. This expense report, submitted on December 6, 2002, has not been reviewed by Accounting.

Cause:

The Authority is not monitoring the status of outstanding travel expense reports.

Effect:

Noncompliance with Authority policies and procedures exists. In some cases, travelers may have been compensated for improper or nonexistent expenses.

Recommendation:

We recommend that the status of outstanding travel expense reports be monitored more closely. We also recommend that travel advances be recorded as receivables from employees and be reversed upon receipt of a final travel expense report with supporting invoices. We recommend that a policy to be in place to take action against the employee, such as restitution through payroll deduction, if an employee fails to file the expense report timely or fails to produce all supporting invoices.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-2 – Travel Advances, Continued

Auditee Response dated September 23, 2003:

Under the new administration, GIAA has since enforced the 10-day requirement for travelers' submission of expense reports or otherwise they shall be billed. Any outstanding expense reports due as required in the policy will be invoiced to the traveler and submitted to the Human Resources department for its distribution and to obtain acknowledgement of receipt by the traveler. Furthermore, travel requests will not be processed if there are outstanding travel expense reports due.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-3 – Long standing receivable from FEMA

Criteria:

The Authority should aggressively pursue receivables from air carriers, concessionaires and federal agencies and should document its efforts accordingly.

Condition:

The Authority has a receivable from the Federal Emergency Management Agency (FEMA) in the amount of \$414,128 outstanding since September 30, 2000. The Authority has not been able to determine whether disbursement was made by FEMA to the Guam Department of Administration (DOA) (from which the Authority received the award on a pass-through capacity) or is still outstanding and due from FEMA. As a result, the Authority is unable to actively pursue the amount due.

Cause:

The Authority has not aggressively followed up on the status of this receivable.

Effect:

This receivable may ultimately be determined to be uncollectible.

Recommendation:

We recommend that the Authority contact the representatives at the DOA and FEMA to immediately clarify the status of this receivable and to be more aggressive in pursuing receivables.

Auditee Response dated September 23, 2003:

GIAA has submitted all supporting project worksheets, invoices and proof of payment for FEMA reimbursement. FEMA has indicated that monies have been deposited to DOA for drawdown by GIAA. In the event GIAA is unable to obtain reimbursement from the Department of Administration within the next 30 days, the option exists to offset charges from GSA and DPW against DOA billings.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-4 – Bank Reconciliations

Criteria:

Bank statements should be reconciled to the general ledger on a regular basis. Prompt reconciliations of bank accounts are a key control in ensuring that cash is properly handled and that receipts and payments are properly recorded.

Condition:

Bank reconciliations for the Authority's general expense account, payroll account and revenue account for the month of September 2002 were not prepared and provided for audit purposes until March 2003. Based on our inquiry of staff in the Accounting department, we noted that monthly reconciliations were not performed during the year.

Cause:

There appears to be a lack of follow-up to ensure bank reconciliations were performed monthly.

Effect:

No material effect on the financial statements results from this condition.

Recommendation:

We recommend that the Accounting department properly reconcile bank statements to the general ledger on a monthly basis, preferably no longer than the end of the following month.

Auditee Response dated September 23, 2003:

Timely completion of bank reconciliations has been mandated by the GIAA Board and the Controller.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2002

Finding No. 2002-5 – Capital Projects

Criteria:

Assets are defined as costs incurred that provide future benefit to an organization. Costs that do not provide a future benefit to the organization should not be capitalized as an asset and should be expensed as incurred.

Condition:

The Authority capitalized certain costs that do not appear to yield future benefits:

Birdman Rally	\$ 1,033,000
Aviation security	795,000
Aviation park	565,000
Matapang park	176,000
Air services development	160,000
Statues	<u>205,000</u>
	\$ <u>2,934,000</u>

Cause:

It appears that accounting decisions were sometimes made by non-accounting personnel.

Effect:

The condition resulted in audit adjustments to decrease capital assets and to increase operating and non-operating expenses by approximately \$2,934,000.

Recommendation:

We recommend that future costs be properly recorded.

Auditee Response dated September 23, 2003:

Most of the above items have been written off at FYE. The new management team, particularly the Controller, is committed and will ensure that general accounting principles are adhered to. Furthermore, all future costs shall be reviewed by GIAA's relative Board Standing Committee (Marketing/Travel, Special Projects, Expansion/Construction, and so forth) before such costs are incurred.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-6 – Employee Receivables

Criteria:

The Board should approve all material unbudgeted costs. Furthermore, receivables from employees should be monitored closely to ensure collection is made timely.

Condition:

The Authority entered into various agreements with employees to assist them in purchasing generators after typhoon Chata'an. Total receivables from these employees amount to \$499,047 as of September 30, 2002. Each employee is to sign a non-interest bearing promissory note and payroll deduction authorization for repayment of the generator purchased, which ranges from \$487.16 to \$10,722.16, through bi-weekly payroll deductions for up to five years.

There is no evidence that this transaction was approved by the Authority's Board of Directors. Furthermore, management was not able to provide evidence of FAA approval.

Additionally, out of three samples reviewed, the promissory note for a generator issued to an airport consultant on December 17, 2002 was not executed until March 3, 2003 and no repayment had occurred as of March 3, 2003.

Cause:

The cause of this condition is unknown.

Effect:

There is no financial statement impact. Authority cash flow is negatively impacted. The Authority has assumed a collection risk for these receivables.

Recommendation:

We recommend that 1) written approval be obtained from the FAA to substantiate the legality of the transaction 2) the Board ratify the agreements 3) a review be performed to ensure that proper payroll deductions have been established for all participating employees.

Auditee Response dated September 23, 2003:

GIAA accounting has verified that payroll deductions have been implemented for all participating employees. In addition, management is currently exploring options to minimize the risk of loss/nonpayment. Recommendation for action(s) by management will be brought before the Board for ratification. At this time, several loan restructuring options are being considered: 1) given the life of the class of generators, the outstanding balance shall coincide to the life of the generator; 2) interest is to be charged over the life of the loan; 3) negotiate the sale of the employee association receivable.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2002

Finding No. 2002-7 – Procurement of Construction Contracts

Criteria:

A request for proposal (RFP) is required for all construction projects greater than \$50,000. Change orders should only be utilized for unexpected overruns of costs and necessary revisions related to the project and not to circumvent procurement regulations.

Condition:

During the years ended September 30, 2001 and 2002, several change orders to the Terminal Building general contract were made to include costs incurred for projects that are unrelated to the original terminal building project. There was no evidence of issuance of RFP's or other competitive procurement for the following projects:

Change order for construction of ramps for the Birdman Rally	\$ 555,000
Change order for design and construction of VIP lounge and Governor's statues	5,550,000
Change order for design and construction of The Mama Bear project	<u>1,038,000</u>
	\$ <u>7,143,000</u>

Cause:

There appears to have been management override of internal controls over procurement.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority appears to be in noncompliance with procurement rules and regulations.

Recommendation:

We recommend that the Authority properly follow procurement regulations.

Auditee Response dated September 23, 2003:

The new management is committed to following proper procurement regulations. GIAA shall ensure change orders are in place and are related to the original contract. All change orders are to be reviewed by the Controller for approval prior to further processing. RFP's will be requested for non-related changes and will be reviewed by the related Board Standing Committee.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-8 – Unsupported Disbursements

Criteria:

Disbursements should be supported by original documents such as purchase orders, vendor invoices, receiving reports and/or approved travel authorization. Furthermore, transactions involving the Executive Manager should be approved by a member of the Board instead of by himself or his subordinate.

Condition:

We noted the following disbursements made to the Authority's then Executive Manager (EM):

- Check no. 77787, dated May 31, 2002, in the amount of \$4,166 for reimbursement of airfare for a delegation of 10 people to China. Disbursement was only supported by a request memo from the EM, as well as an invoice from the travel agency. No travel authorization is provided for review; therefore, we were not able to verify the propriety of this disbursement and whether this represents a valid Airport expense.
- Check no. 78431, dated July 12, 2002, in the amount of \$4,500 and check no. 79055, dated August 30, 2002, in the amount of \$5,000, both for advances of anticipated entertainment expense to the EM for two separate trips to China. Disbursements were only supported by request memos. A final expense report or submission of invoices validating the disbursements was not located. The amount was ultimately charged back to the EM upon his resignation.

Cause:

There appears to have been management override of controls over disbursements.

Effect:

Expenses may be immaterially overstated.

Recommendation:

We recommend that all travel by the Executive Manager be approved by the Board. Additionally, we recommend that all travel advances be recorded as an employee receivable and timely submission of required travel expense reports be monitored more closely.

Auditee Response dated September 23, 2003:

The GIAA Board has assumed the responsibility for the review and approval of all of the Executive Manager's travel requests and related travel expenditures. See the minutes of the GIAA's Board of Directors' Regular meeting of June 26, 2003.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-9 – Procurement and Approval of Consulting Contracts

Criteria:

Consulting agreements should be subject to normal procurement requirements.

Consulting contracts entered into by the Authority should be reviewed and approved by the Authority's legal counsel to ensure legality.

Condition:

The Authority entered into a one-time promotional contract with a firm based in Korea for the sponsorship of Birdman Rally competition. The contract calls for a sponsorship fee of \$465,000 in addition to various out-of-pocket type expenses by the Authority (platform construction, maintenance and demolition, prize money, security personnel/live guards, television sanction fees and ground transportation, etc.). The Authority also paid a firm \$166,000 under an agreement to provide Air Service Development. We were unable to obtain any evidence of competitive procurement for either agreement and neither agreement is signed by the Authority's legal counsel. Therefore, we were unable to determine the propriety of the contracts.

Cause:

There was an apparent disregard for procurement and contract approval rules and regulations.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority appears to be in noncompliance with its rules and regulations on procurement and contract approval.

Recommendation:

Consulting agreements should be subject to normal procurement requirements.

Consulting contracts entered into by the Authority should be reviewed and approved by the Authority's legal counsel to ensure legality.

Auditee Response dated September 23, 2003:

All requests for proposals and professional service agreements shall adhere to GSA procurement regulations with agreements subject to legal counsel's review and approval.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-10 – Payments to GIAA Employee Association

Criteria:

All expenditures recorded by the Authority should be supported by an invoice, purchase order, receiving report, and procurement history.

Condition:

During the fiscal year ended September 30, 2002, the Authority sponsored two employee activities – Airport Week and Airportlympics (an athletic competition held in Saipan). We noted that:

- The Authority appropriated and disbursed a total of \$22,000 (check no. 75421 dated December 31, 2001 and check no. 75598 dated December 27, 2001) to the employee association for the funding of various functions and activities of the Airport Week. No expense report has been submitted by the association to validate proper expenditure of the funds. Therefore, we were unable to determine the propriety of the expenditure.
- The Authority appropriated and disbursed a total of \$30,000 (check no. 76604 dated February 20, 2002 and check no. 76827 dated March 26, 2003) to the association for the funding of various purchases of athletic accessories and equipment, procurement of services, and airfare for Airport employees to attend the event in Saipan. An expense report was filed after our initial review of this transaction. Based on the report, \$2,381 was due to the Authority and such was remitted to the Authority. We noted no competitive procurement for the purchase of items such as shirts, bags, and uniforms amounting to \$18,618.99. Furthermore, we were unable to verify the validity of an item listed on the report. A payment of \$1,700, listed for the “co-sponsorship of dart & billiard events,” was supported only by an officer’s certification.

Cause:

There appears to be a lack of controls over disbursement support.

Effect:

The above expenses are not appropriately documented and a \$2,381 misstatement of expenses also results.

Recommendation:

We recommend that the expense report for the Airport Week activities be obtained to support proper expending of Airport funds. We recommend that the amounts expended not supported by authoritative invoices be disallowed and charged back to the association. Additionally, we recommend that procurement procedures be followed for all Airport expenditures.

Auditee Response dated September 23, 2003:

GIAA shall enforce existing policies and procurement regulations for all disbursements. All disbursements shall be paid based on proper justification and supporting documentation.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-11 – Payments to Subcontractors

Criteria:

All contracts entered into by the Authority are subject to procurement rules and regulations.

Condition:

We noted several payments made to the subcontractors of the Authority's consultant and legal counsel:

- Check no. 78272, dated March 8, 2002, in the amount of \$18,600 was paid to a sub-consultant to the Airport Consultant. Per review of the sub-contract, effective from January 22, 2002 through September 30, 2002, the scope of service includes assistance in the development of air services with focus on the Philippines, other programs and other tasks as directed by the Consultant with the compensation rate of \$75 per hour. No competitive procurement occurred for this sub-contract, and there was no evidence of actual service received under this contract.
- Check no. 75409, dated October 31, 2001, in the amount of \$24,475.32 was paid to a sub-contracted attorney to the Authority's general counsel for consultation on bond matters. Payment was approved based on the general counsel's recommendation to pay. There is no formal sub-contractual relationship with this attorney.
- Check no. 81721, dated September 30, 2002, in the amount of \$51,031.16 was paid to a sub-contracted attorney to the Authority's general counsel for consultation of original landowner issues. Payment was approved based on the general counsel's recommendation to pay. There is no formal sub-contractual relationship with this attorney.

Cause:

There appears to be weak internal controls over procurement.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority appears to be in noncompliance with its rules and regulations on procurement and contract approval.

Recommendation:

We recommend that these sub-contractual relationships be terminated immediately and proper procurement procedures be followed for solicitation of services.

Auditee Response dated September 23, 2003:

All subcontractors noted above have been terminated. All contracts shall be covered under Requests for Proposal (RFP) or purchase orders subject to procurement rules and regulations. Policy will be established so that a cap for subcontractors is set and given a dollar or time threshold.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding no. 2002-12 – Legal Counsel Contracts

Criteria:

Disbursement of legal fees should occur based on terms of the contract.

Condition:

The Accounting department was unable to provide an updated contract with the Authority's general counsel for review. The latest contract in file, including all attached amendments, expired in 2000. We were unable to determine whether an updated contract existed and therefore were unable to determine the propriety of payments made.

Furthermore, we noted no provision in the contract authorizing the counsel to enter into sub-contractual relationships on behalf of the Authority. According to the contract, Board approval is needed for payments over \$25,000. Check no. 76425, dated February 28, 2002, in the amount of \$72,068.71, did not evidence Board approval.

Cause:

Contract update and approval appears to have been overlooked.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority appears to be in noncompliance with its rules and regulations on approval of disbursements.

Recommendation:

We recommend that disbursements not to be made without authoritative documents.

Auditee Response dated September 23, 2003:

Effective immediately, GIAA will ensure that all airport contracts are executed or renewed prior to any disbursements.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-13 – No Evidence of Service Received

Criteria:

Payments to vendors should only be made with evidence of goods or services received benefiting the Authority.

Condition:

We noted that the following payments were made without evidence of services received:

- Check no. 76396, dated October 31, 2001, in the amount of \$4,570 for “legislative and governmental affairs services research.” There is no formal contractual relationship with this vendor. Payment was made based on an invoice for services billed for 25 hours of services at \$190 per hour. No detail of services was provided. A purchase order was dated after the date of the invoice. Disbursement was approved by the Executive Manager.
- A \$25,000 monthly retainer was paid to a Philippines-based consultant for “consultation and representation in the areas of air service development, bilateral agreements and regional promotions to include the Philippines, Taiwan and China.” No formal contract and terms of engagement are on file for this contractor. Payments were based on a proposal letter approved by the Executive Manager. For the fiscal year ended September 30, 2002, the Authority paid a total of \$165,957.48 (of which \$40,957.48 was for out-of-pocket travel and entertainment reimbursements). We noted no invoices were provided for the request for reimbursement of out-of-pocket expenses.

Cause:

There appears to have been management override of internal controls over disbursement.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority may have paid for services it has not received.

Recommendation:

Payments should not be made without evidence of work performed or goods or services received.

Auditee Response dated September 23, 2003:

GIAA management shall ensure the procurement of goods or services are properly justified and beneficial to the Authority. Contract or vendor payment shall be subject to further justification and evidence of goods or services received. In addition, proof of time and expenses will be requested as an attachment to invoices submitted for payment.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No. 2002-14 – Budget

Criteria:

Expenditures should adhere to annual budgets adopted by the Board of Directors. Any significant deviation from the adopted budget should require re-programming of funds through Board action. Furthermore, expenditures occurred for major capital or operation projects should be based on Board approved budgets. Progress reports of actual expenditures versus budgeted amounts should be reported to the Board monthly to ensure compliance.

Condition:

The Authority appears to have significantly over-expended in the areas of travel, promotion and advertising, and miscellaneous contractual services summarized as follows:

	<u>Budgeted Amount</u>	<u>Actual Expenditure Prior to Year-end Adjustments</u>	<u>Over</u>	<u>Actual Expenditure After Year-end Adjustments</u>	<u>Over</u>
Travel	\$ 400,000	\$ 1,033,075	\$ 633,075	\$ 1,033,075	\$ 633,075
Advertising, promotional and entertainment	\$ 941,000	\$ 1,722,097	\$ 781,097	\$ 1,244,412	\$ 303,412
Miscellaneous contractual services	\$ 8,400	\$ 892,409	\$ 884,009	\$ 895,253	\$ 886,853

Additionally, we noted no Board approved budget for the following Airport projects based on our review of Board meeting minutes: Sponsorship of Birdman Rally competition, Air Services Development, and VIP Lounge/Statues of Governors. We further noted no financial progress reports on the fiscal aspect of these projects based on our reading of Board meeting minutes.

Cause:

It appears that the situation mainly resulted from the Authority's Contracting Officer's (Executive Manager or Deputy Executive Manager) entering into various contracts without obtaining certification of funds.

Effect:

The effect of this condition is the over expenditure of airport funds.

Recommendation:

We recommend that the Board of Directors closely monitor the operating budget and require detailed explanations of management for expense overruns.

We also recommend that a construction-in-progress / major project budget be created and reviewed in detail in the monthly Board of Directors meetings.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2002

Finding No. 2002-14 – Budget, Continued

Auditee Response dated September 23, 2003:

Controller will submit recommendations for budget transfers or appropriations to the Board/Management for approval to eliminate overruns.

The Board is currently active in reviewing the actual to budget results monthly from its Financial Controller at its regular Board meetings.

Significant construction-in-progress / major projects will be presented to the Board in detail to ensure compliance with the approved budget.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs
September 30, 2002

Finding No.: 2002-15
 CFDA No.: 20.106
 Program Name: Airport Improvement Program
 Area: Procurement
 Questioned Costs: \$322,815

Criteria:

In accordance with OMB Circular A-133 procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

Out of 13 transactions tested, aggregating \$352,986 of \$2,044,369 in total Program expenditures, we noted the following noncompliance matters:

- 1) For 1 (or 8%), there is no significant history of the procurement on file for the following transaction:

	Trans	AIP		Total	
	Date	Number	Amount	Payments	Vendor ID No.
<u>Services Procured</u>	<u>Date</u>	<u>Number</u>	<u>Amount</u>	<u>in FY 2002</u>	<u>Vendor ID No.</u>
Consulting services	07-02	34	\$5,500	\$54,465	4300

- 2) For 5 (or 38%), the procurement documents did not include a rationale for the vendor selected for the following transactions:

	Trans	AIP		Total	
	Date	Number	Amount	Payments	Vendor ID No.
<u>Goods/Services Procured</u>	<u>Date</u>	<u>Number</u>	<u>Amount</u>	<u>in FY 2002</u>	<u>Vendor ID No.</u>
K-9 kennel design	07-02	35	\$14,975	\$ 26,464	4102
Communications	08-02	34	\$14,634	123,146	5927
SWAT training	09-02	34	\$29,250	45,466	4596
Emergency barricade	10-01	34	\$22,278	46,881	4561
Threat assessment	02-02	34	\$26,393	<u>26,393</u>	4473
				\$ <u>268,350</u>	

Cause:

Most of these agreements were entered into by the Authority shortly after the 9/11 attacks. The Authority may have overlooked the OMB Circular A-133 procurement requirements because of the emergency conditions at that time.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No.: 2002-15, Continued
CFDA No.: 20.106
Program Name: Airport Improvement Program
Area: Procurement
Questioned Costs: \$322,815

Effect:

The grantee is in noncompliance with OMB Circular A-133 procurement requirements. Questioned costs exist, as follows:

	Questioned Costs
Condition 1	\$ 54,465
Condition 2	<u>268,350</u>
Total	\$ <u>322,815</u>

Recommendation:

The grantee should strengthen internal controls to ensure that the significant history of each procurement transaction is maintained in accordance with OMB Circular A-133 procurement requirements. The grantee should provide the applicable procurement documents to effect resolution of this finding.

Auditee Response dated September 23, 2003:

Under Government of Guam emergency procurement regulations, three quotes are not required. Goods and services were procured under emergency procurement not knowing that FAA allowed reimbursements.

Most of the goods/services procured are security-related items following the 9/11 attacks under which an emergency declaration was issued. By special federal mandate, the FAA reimbursed airports for a portion of their additional security expenses incurred through the Airport Improvement Program. Due to the special circumstances, OMB-133 may not apply to these procurement actions.

Since it is apparent that emergency conditions may be more frequent, the GIAA will evaluate its present system to mitigate any perception of non-compliance.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No.: 2002-16
CFDA No.: 20.205
Program Name: Highway Planning and Construction
Area: Activities Allowed or Unallowed
Questioned Costs: \$368,600

Criteria:

In accordance with OMB Circular A-133 activities allowed or unallowed requirements, Federal funds can be used only to reimburse costs that are: (1) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108; (2) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (3) allocable to a specific project; and, (4) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, 630.205, and 630.303). Furthermore, if costs were incurred prior to the authorized date, subsequent grantor approval should be obtained.

Condition:

For 3 (or 25%) out of 12 transactions tested, aggregating \$1,905,824 of \$2,206,345 in total Program expenditures, expenditures were incurred prior to the date of authorization to proceed (ATP) for the following:

	<u>Services Procured</u>	<u>Trans Date</u>	<u>ATP Date</u>	<u>Amount</u>	<u>Vendor ID No.</u>
1.	Construction management	07-01	10/12/2001	\$138,377	4039
2.	Construction management	08-01	10/12/2001	\$137,805	4039
3.	Travel arrangements	09-01	10/12/2001	\$ 10,372	5158

A total of \$368,600 in costs charged to the Program in fiscal year 2002 was incurred prior to October 12, 2001. No subsequent approval from the grantor agency was obtained.

Cause:

There appears to be weak internal controls over ensuring compliance with OMB Circular A-133 activities allowed or unallowed requirements.

Effect:

The grantee appears to be in noncompliance with OMB Circular A-133 activities allowed or unallowed requirements. A questioned cost exists, as follows:

	<u>Trans Date</u>	<u>Amount</u>	<u>Vendor ID No.</u>
1.	07/2001-09/2001	\$ 357,603	4039
2.	07/2001	533	5156
3.	09/2001	92	5910
4.	09/2001	<u>10,372</u>	5158
Total questioned costs presented at this finding		\$ <u>368,600</u>	

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No.: 2002-16, Continued
CFDA No.: 20.205
Program Name: Highway Planning and Construction
Area: Activities Allowed or Unallowed
Questioned Costs: \$368,600

Recommendation:

The grantee should strengthen internal controls to ensure that only costs incurred after the date of authorization to proceed are charged to the Program. Prior to charging the Program for costs incurred, the responsible personnel should review the authorization to proceed documents to ensure compliance with OMB Circular A-133 activities allowed or unallowed requirements. Furthermore, for costs incurred prior to the authorization date, the responsible personnel should obtain subsequent written approval from the grantor agency.

Auditee Response dated September 23, 2003:

The federal grant programs applicable to the GIAA allow for preliminary engineering expenses to be eligible and charged to the project. In this instance, FHWA did not allow for reimbursement until the issue of the construction manager's audited overhead rate was resolved.

GIAA management is committed to establishing strict internal control procedures and will not disburse any funds without proper documentation and justification.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No.: 2002-17
CFDA No.: 20.106
Program Name: Airport Improvement Program
Area: Special Tests and Provisions – Revenue Diversion
Questioned Costs: \$2,489,529

Criteria:

In accordance with OMB Circular A-133 special tests and provisions - revenue diversion, all revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

Condition:

The Authority expended revenues on projects that do not appear to be directly related to capital or operating costs of the airport and may not be directly and substantially related to actual air transportation of passengers or property, as follows:

<u>Project</u>	<u>Expenditure</u>
Birdman Rally	\$ 1,660,555
Aviation Park	564,702
Governor Statues	205,000
Legal expense	<u>59,272</u>
Total	\$ <u>2,489,529</u>

Cause:

Prior Authority management was of the opinion that the above projects were airport related.

Effect:

The effect of this condition is that we are unable to determine whether the above projects conform to applicable revenue diversion guidelines.

Recommendation:

The grantor agency should review the above projects and issue a ruling on whether the above projects are in compliance with revenue diversion requirements.

Auditee Response dated September 23, 2003:

Former management believed the above to be related to airport activities. These expenditures were thought to be justified and within AIP compliance.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs September 30, 2002

Finding No.: 2002-17, Continued
CFDA No.: 20.106
Program Name: Airport Improvement Program
Area: Special Tests and Provisions – Revenue Diversion
Questioned Costs: \$2,489,529

Auditee Response dated September 23, 2003, Continued:

- Birdman Rally

Primarily considered a marketing and promotional activity for the airport in generating additional visitors whom are also passengers through the airport. But also the rally served as public aviation education by simplifying the theory of flight. A significant portion of the expenditures were funded by DFS revenues allocated for marketing activities.

- Aviation Park

This was GIAA's community outreach program to include the participation of a major airline. Although not on airport property, the park is located within an aircraft noise-impacted community along the path of final approach to the airport.

- Governor Statues

The statues were intended to be an extension of the airport's arts program since the GIAA did not fully meet the mandated 1% art in public buildings program as part of the terminal expansion project. Each of Guam's civilian governors were to provide their historical significance and contribution to the local aviation industry.

GUAM INTERNATIONAL AIRPORT AUTHORITY

Summary of Prior Findings
September 30, 2002

There are no unresolved prior year findings.