

Compliance and Internal Control

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

Year ended September 30, 2010

Ernst & Young

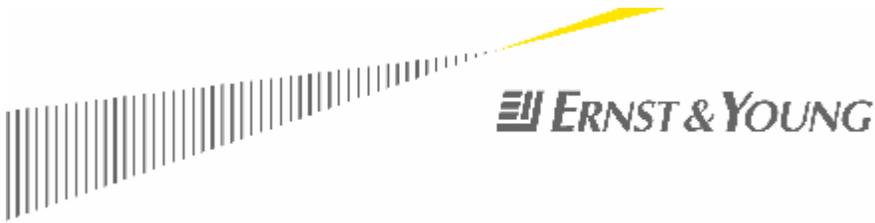
Port Authority of Guam
(A Component Unit of the Government of Guam)

Reports on Compliance and Internal Control

Year ended September 30, 2010

Contents

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards.....	6
Schedule of Findings and Questioned Costs	8
Schedule of Prior Audit Findings	12



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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, 2010, and have issued our report thereon dated December 30, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 December 30, 2010.

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

December 30, 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, 2010. 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, 2010.

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 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 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 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2010, and have issued our report thereon dated December 30, 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

December 30, 2010

Port Authority of Guam
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Schedule of Expenditures of Federal Awards

Federal Grantor, Pass-through Grantor, CFDA Title, Project Name	Federal CFDA Number	FY 2010 Expenditures
DEPARTMENT OF COMMERCE:		
Pass through Department of Transportation/Maritime Administration: ARRA – Economic Adjustment Assistance Program (Field Investigation and Preliminary Design Work)	11.307	\$ 1,261,775*
DEPARTMENT OF DEFENSE:		
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	2,073,422*
DEPARTMENT OF THE INTERIOR:		
Pass-through from the Government of Guam Department of Administration: Economic, Social, and Political Development of the Territories (Port Modernization Plan)	15.875	2,195,212*
DEPARTMENT OF HOMELAND SECURITY:		
Direct award: Port Security Grant Program	97.056	546,329*
Pass-through from the Government of Guam Department of Administration: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	12,892**
Total Federal Awards		\$ 6,089,630

* 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

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

Notes to the Schedule of Expenditures of Federal Awards

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 2010 *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, 2010.

3. Department of Commerce

The U.S. Department of Commerce (DOC), through the Office of Economic Development Administration, provides assistance to communities experiencing adverse economic changes that may occur suddenly or over time, including, but not limited to, those caused by military base closures or realignments, depletion of natural resources, Presidentially-declared disasters or emergencies, or international trade. The Authority's Port Modernization Plan (Master Plan) is funded by grants under CFDA 11.307 through the Department of Transportation's Maritime Administration.

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

Notes to the Schedule of Expenditures of Federal Awards, continued

4. Department of Defense

The Authority's Implementation Plan as identified in the 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. The grants may fund the entire task order or the cost of the contracts may be split between separate grants.

5. 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.

6. 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.

7. 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 local and federal laws and regulations.

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2010

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?

 Yes X **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?

 Yes X **No**

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

Schedule of Findings and Questioned Costs, continued

Year Ended September 30, 2010

Part I - Summary of Auditor's Results, continued

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
11.307	Economic Development Assistance Program
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation
15.875	Economic, Social, and Political Development of the Territories
97.056	Port Security Grant Program

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

\$ 300,000

Auditee qualified as low-risk auditee?

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

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

Schedule of Findings and Questioned Costs, continued

Year Ended September 30, 2010

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.

None

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

Schedule of Findings and Questioned Costs, continued

Year Ended September 30, 2010

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

Port Authority of Guam
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Schedule of Prior Audit Findings

Year Ended September 30, 2010

The findings in the prior year audit report dated January 29, 2010 were all resolved during fiscal year 2010.