

Compliance and Internal Control

Guam International Airport Authority

Year ended September 30, 2006

Guam International Airport Authority
Reports on Compliance and Internal Control
Year ended September 30, 2006

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Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters 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 (the "Authority"), as of and for the year ended September 30, 2006, and have issued our report thereon dated January 9, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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 an opinion 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 the Authority'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 2006-1 and 2006-2.

A material weakness is a reportable 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 caused by error or fraud 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, we do not consider the reportable conditions described above to be material weaknesses.

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 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. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Directors and Management of the Authority, the Office of the Public Auditor, 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.

Ernst + Young LLP

January 9, 2007

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 (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 its major federal programs for the year ended September 30, 2006. The Authority's major federal programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in finding numbers 2006-3 through 2006-4 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with the requirements regarding activities allowed or unallowed, the Davis-Bacon Act and procurements applicable to its Airport Improvement Program (CFDA No. 20.106) and Highway Planning and Construction Program (CFDA No. 20.205). Compliance with such requirement is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Authority 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 the Authority'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 the Authority'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 2006-3 through 2006-4.

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 caused by error or fraud 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, we do not consider the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated January 9, 2007. 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. The accompanying schedule described above is not a required part of the financial statements. This schedule is the responsibility of the management of the Authority. 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 the Authority, the Office of the Public Auditor, 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.

Ernst + Young LLP

January 9, 2007

Guam International Airport Authority

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2006

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 10/01/05	Cash Receipts FY 2006	Allowable Expenditures FY 2006	Receivable from Grantor at 9/30/06
U.S. Department of Transportation							
Direct Programs:							
Airport Improvement Program:							
Construct Parallel Taxiway	20.106	3-66-0001-21	\$ 2,386,699	\$ 596,576	\$ 748,601	\$ 152,025	\$ -
Construct Parallel Taxiway	20.106	3-66-0001-22	425,976	9,270	363,876	354,606	-
Conduct Noise Compatibility Plan	20.106	3-66-0001-23	450,000	-	-	-	-
Construct Parallel Taxiway	20.106	3-66-0001-24	2,202,325	39,396	1,938,399	1,899,003	-
Construct Parallel Taxiway	20.106	3-66-0001-25	328,400	6,952	281,746	274,794	-
Construct Loop Taxiway	20.106	3-66-0001-26	1,760,013	30,126	1,558,030	1,527,904	-
Construct Loop Taxiway	20.106	3-66-0001-28	5,958,210	142,136	1,493,480	1,594,633	243,289
Extend & Rehab Runway 6L/24R	20.106	3-66-0001-29	4,590,000	-	5,115	258,050	252,935
Update Airport Master Plan Study	20.106	3-66-0001-30	540,000	-	-	-	-
Acquire Land/Relocation	20.106	3-66-0001-31	1,296,226	33,038	67,525	47,264	12,777
Compensation of Direct Cost							
Associated with New & Revised Security Requirements	20.106	3-66-0001-34	2,182,341	-	-	-	-
Security Enhancements-Phase 1	20.106	3-66-0001-35	5,454,744	302,235	633,015	399,140	68,360
Rehabilitate TB & ARFF Bldg.; Install Security Fencing; Repair SACS & Misc. Nav Aids (typhoon damages)	20.106	3-66-0001-36	3,700,000	42,345	1,589,179	1,546,834	-
Improve Airport Utility Infrastructure (Water System) - Phase 1	20.106	3-66-0001-37	4,187,450	22,464	69,248	46,784	-
Replace Airfield Signage & Lighting; Procure/Install 2 LB; Repair 14 LB; Rehab ARFF Bldg; Replace/Install Perimeter fence (typhoon damages)	20.106	3-66-0001-38	16,900,000	206,514	1,633,849	1,920,149	492,814
Improve Airport Utility Infrastructure (Water System) - Phase 2	20.106	3-66-0001-40	2,155,152	83,075	260,363	177,288	-
Conduct Noise Compatibility Plan Study - Phase 1	20.106	3-66-0001-41	119,354	21,889	21,889	-	-
Acquire Land for Noise Compatibility	20.106	3-66-0001-42	2,000,000	138,269	358,602	289,034	68,701
Improve Airport Utility Infrastructure (Water System) - Phase 2	20.106	3-66-0001-43	1,400,000	-	48,661	70,908	22,247
Conduct Airport Security/Perimeter Road	20.106	3-66-0001-44	7,703,767	15,438	494,126	492,803	14,115
Acquire Passenger Lift Device	20.106	3-66-0001-45	100,000	10,542	45,498	37,327	2,371
Conduct General Aviation Site Selection Study	20.106	3-66-0001-46	250,000	3,146	177,376	175,416	1,186
Improve TB (Seismic Zone 4 Upgrades, Outbound Baggage System Impr., Design of a Sterile Arrival Corridor)	20.106	3-66-0001-47	3,867,500	240,984	364,316	236,823	113,491
Noise Mitigation Measures for Residences w/in 65-69 DNL - Phase 1	20.106	3-66-0001-48	1,900,000	9,512	238,081	707,106	478,537
Acquire Runway Sweeper, Rubber Removal Eqpt, Friction Measuring Eqpt.	20.106	3-66-0001-49	375,120	-	4,988	9,730	4,742
Improve Airport Utility Infrastructure (Water System) - Phase 4	20.106	3-66-0001-50	1,757,000	-	-	-	-
Misc. Airport Improvements (Demolish Former Naval Housing Units)	20.106	3-66-0001-51	2,282,589	-	-	-	-
Noise Mitigation	20.106	3-66-0001-52	5,000,000	-	-	-	-
Improve Terminal Bldg - Phase 2	20.106	3-66-0001-54	1,400,000	-	-	-	-
Extend Runway 6L - Phase 2	20.106	3-66-0001-55	3,093,137	-	-	-	-
Extend Runway 6R/24L - Phase 1 (Earthwork/Grading)	20.205	GU-AP66 (001)	5,743,624	-	-	-	-
Extend Runway 6R/24L - Phase 2	20.205	GU-AP66 (002)	10,200,336	588,843	1,904,704	1,842,252	526,391
U.S. Department of Transportation Total, carried forward			101,709,963	2,542,750	14,300,667	14,059,873	2,301,956

Guam International Airport Authority

Schedule of Expenditures of Federal Awards, continued

Year Ended September 30, 2006

Federal Program/ Project Title	CFDA No.	Project No.	Program or Award Amount	Receivable from Grantor at 10/01/05	Cash Receipts FY 2006	Allowable Expenditures FY 2006	Receivable from Grantor at 9/30/06
U.S. Department of Transportation Total, brought forward			101,709,963	2,542,750	14,300,667	14,059,873	2,301,956
Economic Development Administration							
Water & Sewer Line Extensions to the Tiyan Community	11.307	07-49-03910	1,100,000	-	-	-	-
Waterline to Loop Water Systems at Tiyan Economic Development Zone	11.307	07-49-04841	469,000	-	-	-	-
Public Works and Economic Development Facilities Program	11.300	07-01-05790	<u>1,250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Economic Development Administration Total			2,819,000	-	-	-	-
Federal Emergency Management Agency							
Pass-Through Government of Guam:							
Typhoon Paka	83.544		1,237,090	1,368	1,368	-	-
Airconditioning System Seismic Retrofit Exterior Automatic & Manual Glass Panel Door Hardening	97.039	FEMA-1426-DR-GU	139,598	-	139,598	139,598	-
Utility Power Hardening for Critical Airport Facilities	97.039	FEMA-1446-DR-GU2	118,238	-	-	118,238	118,238
	97.039	FEMA-1446-DR-GU21	<u>5,850,000</u>	<u>-</u>	<u>-</u>	<u>333,083</u>	<u>333,083</u>
Federal Emergency Management Agency Total			7,344,926	1,368	140,966	590,919	451,321
U.S. Environmental Protection Agency							
Brownsfields Cleanup Cooperative Agreement	66.818	BF-96984801-0	600,000	-	-	16,476	16,476
Transportation Security Administration							
National Explosives Detection Canine Team Program	97.072	HSTS04-05-H-CAN103	<u>270,500</u>	<u>-</u>	<u>176,034</u>	<u>270,500</u>	<u>94,466</u>
Total Federal Awards Expended			<u>\$ 112,744,389</u>	<u>\$ 2,544,118</u>	<u>\$ 14,617,667</u>	<u>\$ 14,937,768</u>	<u>\$ 2,864,219</u>

Guam International Airport Authority

Notes to the Schedule of Expenditures of Federal Awards

September 30, 2006

1. Source of Funding

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

2. Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

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

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

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

Matching Requirements

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

Indirect Cost Allocation

The Authority does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2006. The Federal Aviation Administration programs do allow, upon prior grantor approval, certain administrative expenses to be charged against the grants.

Guam International Airport Authority

Notes to the Schedule of Expenditures of Federal Awards, continued

3. Cost Allocation

Grant numbers 33-66-0001-21, 22, 24, 25, 26 and 28 are commingled to fund construction of a parallel taxiway. Qualifying expenditures are allocated among these six grants.

Grant numbers 33-66-0001-36 and 38 are commingled to fund repairs due to typhoon damages. Qualifying expenditures are allocated among these two grants.

Grant numbers 33-66-0001-37, 40, 43, and 50 are commingled to fund improvements to the water system. Qualifying expenditures are allocated among these four grants.

4. Federal Emergency Management Agency (FEMA)

The Authority is a subrecipient of a Hazard Mitigation Grant Program administered by the Guam Homeland Security office of Civil Defence and funded by the U.S. Federal Emergency Management Administration under CFDA number 97.039.

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

The U.S. EPA grants for the Brownsfields Cleanup Cooperative Agreement were received to reimburse related operating expenses.

6. Transportation Security Administration (TSA)

The TSA grants were received to reimburse operating expenses related to the National Explosives Detection Canine Team Program and the International Transfer Facility.

Guam International Airport Authority

Schedule of Findings and Questioned Costs

September 30, 2006

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 none of which was considered to be a material weakness.
3. No 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, none of which were 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 Authority’s major programs are:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106
Highway Planning and Construction Program	20.205
Hazard Mitigation Grant Program	97.039

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 Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Part II – Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>
2006 - 1	Bond Indenture
2006 – 2	Capital Grants from the U.S. Government

Part III – Federal Award Findings and Questioned Cost Section

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2006 – 3	20.106	Activities Allowed or unallowed	\$ ---
2006 – 4	20.106 & 20.205	Davis-Bacon Act	\$ ---

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Finding Number 2006 – 1
Bond Indenture

Criteria:

Article V, Section 5.02, of the 2003 Bond Indenture establishes the allocation of revenues. Funds are to be transferred by the 5th of the month in the amount necessary to increase the balances of the Operations and Maintenance (O&M) fund and the Bond Debt Service Funds (principal and interest) to the required amount.

Condition:

Based on our review of the October 2005 to October 2006 revenue account statements, fund transfers were not made in a timely manner as noted below:

Month	Date Remitted	Days Late
December 2005	12/12/05	5 business days late
January 2006	01/09/06	3 business days late for principal

Cause:

The cause of this condition is unknown.

Effect:

The aforementioned fund transfers were not made in accordance with the requirements of Article V, Section 5.02 of the 2003 Bond Indenture.

Recommendation:

We recommend the Authority ensure that funds are transferred, in a timely manner, in accordance with the requirements of the Bond Indenture.

Auditee Response:

In December 2005 and January 2006, the Revenue Fund Account did not have sufficient funds to meet the allocation required per indenture. In addition, in September 2006, the Guam Economic Development and Commerce Authority with the concurrence of the Authority's Board of Directors, selected Bank of Guam as Trustee and complied with the Indenture.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Finding Number: 2006 – 2
CFDA No: 97.039
Program Name: Hazard Mitigation Grant Program
Area: Capital Grants from the U.S. Government
Questioned Costs: \$-0-

Criteria:

Receivables from the U.S. Government for approved grants and the corresponding grant income should be recognized in the accounting period the related allowable expenditures were incurred. Similarly, the Schedule of Expenditures of Federal Awards (“SEFA”) should be updated to reflect these transactions.

Condition:

The Authority incurred allowable expenditures totaling \$376,101 during the year ended September 30, 2005 but (1) did not recognize the receivables from the U.S. Government for the allowable expenditures incurred and (2) did not include these transactions in the 2005 SEFA for the following grants approved in the same year:

<u>Federal Program/ Project Title</u>	<u>Program or Award Amount</u>	<u>Allowable Expenditures FY 2005</u>	<u>Allowable Expenditures FY 2006</u>	<u>Total Allowable Expenditures To-date FY 2006</u>
Federal Emergency Management Agency				
Airconditioning System Seismic Retrofit \$	139,598	\$ 16,333	\$ 123,265	\$ 139,598
Exterior Automatic & Manual Galss Panel Door Hardening	118,238	31,243	86,995	118,238
Utility Power Hardening for Critical Airport Facilities	<u>5,850,000</u>	<u>328,525</u>	<u>4,558</u>	<u>333,083</u>
Total	<u>\$ 6,107,836</u>	<u>\$ 376,101</u>	<u>\$ 214,818</u>	<u>\$ 590,919</u>

Cause:

The Authority does not have adequate procedures to monitor the completeness of approved grants and ensure that the SEFA is properly stated at any given period. There is lack of timely dissemination of approved grants from the administrative office to the accounting office. This is needed in order to inform accounting office that certain capital expenditures are actually funded by a certain grant and can be claimed as receivable from the U.S. Government.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Finding Number: 2006 – 2, continued
CFDA No: 97.039
Program Name: Hazard Mitigation Grant Program
Area: Capital Grants from the U.S. Government
Questioned Costs: \$-0-

Effect:

Receivables from the U.S. Government and capital grants from the U.S. Government were understated by \$376,101 for the year ended September 30, 2005. SEFA for the same period was not properly stated. In addition, a receivable of \$118,238 from the U.S. Government was recorded as an audit adjustment for the year ended September 30, 2006 mainly because the Authority erroneously recognized receipt of this grant in the same period.

Recommendation:

The Authority should strengthen their procedures to monitor the completeness of approved grants and ensure that approved grant documents are forwarded to the accounting office on a timely basis. The Authority should also ensure that the SEFA is complete and properly stated at any given period.

Auditee Response:

The Authority will establish procedures so that all approved grants are distributed to pertinent divisions, hence required schedules can be prepared and stated in the appropriate period.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Finding Number: 2006-3
CFDA No: 20.106
Program Name: Airport Improvement Program
Area: Activities Allowed or Unallowed
Questioned Costs: \$-0-

Criteria:

In accordance with the requirements of OMB Circular A-133, “eligible construction is limited to items of work and to the quantities *listed in the grant description* and/or special conditions.”

Condition:

The Authority referenced AIP 3-66-0001-42 in procuring and contracting J&B Modern Tech for the Residential Sound Insulation Program “Pilot Phase.” However, all costs pertaining to J&B Modern Tech were recorded under and reimbursed using reference to AIP 3-66-0001-48.

Cause:

The cause of this condition is unknown.

Effect:

Although the costs were appropriately recorded under AIP 3-66-0001-48, based on the grant description, the procurement and contract documents are referenced to AIP 3-66-0001-42.

Recommendation:

The Authority should review grant descriptions more carefully prior to carrying out procurement and contracting processes.

Auditee Response:

The Authority wrote a letter dated July 6, 2004 to the Federal Aviation Administration (“FAA”) requesting the FAA to amend the language in the grant agreement. The FAA has informed the Authority that they are in the process of amending the grant description and will inform the Authority upon completion of the grant amendment.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Finding Number: 2006-4
CFDA No: 20.106 and 20.205
Program Name: Airport Improvement Program and Highway Planning and Construction
Area: Davis-Bacon Act
Questioned Costs: \$-0-

Criteria:

All construction contracts over \$2,000 need to include a provision for compliance with prevailing wage rate requirements of the Davis Bacon Act and the Department of Labor implementing regulations. Under this Act, contractors are required to include the contract provisions to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in the wage determination made by the Secretary of Labor. In addition, contractors are required to pay wages not less than once a week. The contractor shall place a copy of the current prevailing wage determination in each solicitation, and the award of the contract shall be conditioned upon the acceptance of the wage determination.

Condition:

We noted the following based on our review of a sample of certified payrolls submitted by various contractors and subcontractors.

Vendor Number	Project Number	Pay Period	Position	Actual Wage Rate	Prevailing Wage Rate	Actual Rate Under Prevailing Rate
5352	GIAA-FY99-03-2	9/4/06	Helper/ Painter	10.00	\$14.60	4.60
5352	GIAA-FY99-03-2	9/4/06	Painter	12.00	14.60	2.60
5352	GIAA-FY99-03-2	9/4/06	Sheet Metal	12.00	13.57	1.57
5352	GIAA-FY99-03-2	9/4/06	AC Tech Helper	6.00	14.07	8.07
5352	GIAA-FY99-03-2	9/4/06	AC Technician	14.00	14.07	0.07
5352 Subcontractor	GIAA-FY99-03-2	9/9/06	Electrician	14.00	14.07	0.07
4052	GIAA-FY2K-13-2	10/23/05	Truck Driver	10.63	12.99	2.36
4052	GIAA-FY2K-13-2	10/23/05	Truck Driver	9.00	12.99	3.99
4052	GIAA-FY2K-13-2	10/23/05	Truck Driver	9.55	12.99	3.44
4052	GIAA-FY2K-13-2	10/23/05	Spreader Operator	10.30	12.81	2.51

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2006

Finding Number: 2006-4, continued
CFDA No: 20.106 and 20.205
Program Name: Airport Improvement Program and Highway Planning and Construction
Area: Davis-Bacon Act
Questioned Costs: \$-0-

Cause:

Although the Authority performs random investigations of its contractors for compliance with the Davis-Bacon Act, the certified payrolls selected may not have been investigated by the Authority.

Effect:

The specified contractors/subcontractors selected for testing are not in compliance with the Davis-Bacon Act.

Recommendation:

We recommend that the Authority specifically select the contractors/subcontractors identified for further investigation. In addition, the Authority should be more diligent in reviewing the submitted certified payrolls.

Auditee Response:

The Authority retains a Construction Manager for inspections and contract administration including compliance with the Davis-Bacon Act. Although, random interviews are being conducted, the auditors have discovered deficiencies in their sampling. These findings will be investigated to achieve resolution. Full reviews will be conducted on contractors/subcontractors found to be deficient. For new projects, we will require 100% reviews during the initial stage of the project to ensure compliance.

Guam International Airport Authority

Summary of Prior Findings

September 30, 2006

FY2002 Unresolved Questioned Costs:	
Finding 2002-15, Procurement (CFDA #20.106)	\$ 268,350
Finding 2002-16, Activities Allowed and Unallowed (CFDA #20.205)	625
Finding 2002-17, Special Tests and Provisions - Revenue Diversion (CFDA #20.106)	<u>2,489,529</u>
	<u>2,758,504</u>
Less: Resolved Questioned Costs:	
Finding 2002-15, FAA resolution	(268,350)
Finding 2002-16, FAA resolution	(625)
Finding 2002-17, FAA resolution	<u>(2,489,529)</u>
	<u>(2,758,504)</u>
Total FY2002 unresolved findings	<u>---</u>
FY2003 Unresolved Questioned Costs:	
Finding 2003-7, Special Tests and Provisions – Revenue Diversion (CFDA #20.106)	2,860,521
Finding 2003-9, Procurement (CFDA#20.106 and 20.205)	<u>356,898</u>
	<u>3,217,419</u>
Less: Resolved Questioned Costs:	
Finding 2003-7, FAA resolution	(2,860,521)
Finding 2003-9, FAA resolution	<u>(356,898)</u>
	<u>(3,217,419)</u>
Total FY2003 unresolved findings	<u>---</u>
FY2004 Unresolved Questioned Costs:	
Finding 2004-5, Procurement (CFDA #83.544)	<u>153,558</u>
Less: Resolved Questioned Costs:	
Finding 2004-5, FAA resolution	<u>(153,558)</u>
Total FY2004 unresolved findings	<u>---</u>
FY2005 findings	\$ <u>NONE</u>
FY2006 findings	\$ <u>NONE</u>
Totaled unresolved findings	\$ <u>---</u>

Guam International Airport Authority

Summary of Prior Findings, continued

September 30, 2006

As discussed in Note 10 to the audited financial statements, as of September 30, 2004, the Federal Aviation Administration (“FAA”) requested that the Authority seek reimbursement of \$564,702 of unresolved questioned costs from the Government of Guam. As further discussed in Note 10, on September 30, 2005 the Authority received a parcel of land with an appraised value of \$2,530,000 from the Government of Guam. This represented reimbursement to the Authority for the \$564,702 in questioned costs, which is reflected as a component of Finding 2002-17 above.

In addition, during 2005, the FAA resolved Finding 2004-5 by notifying the Authority that the actions taken by the Authority after super typhoon Pongsona were “prudent and diligent based on public exigency”.