

**PORT AUTHORITY OF GUAM
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

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

YEAR ENDED SEPTEMBER 30, 2017

**INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of Port Authority of Guam (the Authority), a component unit of the Government of Guam, which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The signature of Deloitte + Touche LLP is written in a cursive, handwritten style.

April 19, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Port Authority of Guam:

Report on Compliance for Each Major Federal Program

We have audited Port Authority of Guam's (the Authority's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Port Authority of Guam as of and for the year ended September 30, 2017, and have issued our report thereon dated April 19, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The signature of Deloitte & Touche LLP is written in a cursive, handwritten style.

April 19, 2018

**PORT AUTHORITY OF GUAM
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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

CFDA #	Other Identification Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Expenditures
		<u>U.S. Department of Agriculture</u>	
		Direct Program:	
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY11	\$ 2,473,893
10.Unknown	Not applicable	Rural Development Loan Guarantee: FY13	9,925,985
10.Unknown	Not applicable	Rural Development Loan: FY15	<u>1,700,752</u>
		U.S. Department of Agriculture Total	<u>14,100,630</u>
		<u>U.S. Department of Defense</u>	
12.607	P0747301	Pass through Government of Guam Office of the Governor: Community Economic Adjustment Assistance for Realignment or Closure of a Military Installation	<u>716,018</u> *
		U.S. Department of Defense Total	<u>716,018</u>
		<u>U.S. Department of the Interior</u>	
		Direct Program:	
15.622	Not applicable	Sportfishing and Boating Safety Act	<u>44,296</u>
		U.S. Department of the Interior Total	<u>44,296</u>
		<u>U.S. Department of Transportation</u>	
		Direct Program:	
20.600	Not applicable	Highway Safety Cluster: State and Community Highway Safety	<u>24,000</u>
		Subtotal: Highway Safety Cluster	<u>24,000</u>
		U.S. Department of Transportation Total	<u>24,000</u>
		<u>U.S. Department of Homeland Security</u>	
		Direct Programs:	
97.026	Not applicable	Emergency Management Institute Training Assistance	15,650
97.056	Not applicable	Port Security Grant Program	<u>346,351</u>
		U.S. Department of Homeland Security Total	<u>362,001</u>
		Total Federal Awards	<u>\$ 15,246,945</u>

*\$60,615 of expenditure amount pertains to prior year

See accompanying notes to Schedule of Expenditures of Federal Awards.

Reconciliation to the basic financial statements:			
		\$	2,473,893
	Beginning Balance in FY17 - USDA Loan FY11		9,925,985
	Beginning Balance in FY17 - USDA Loan FY13		1,700,752
	Beginning Balance in FY17 - USDA Loan FY15		835,873
	US Government Contributions - Operating		310,442
	US Government Contributions - Capital		<u>15,246,945</u>
		\$	<u>15,246,945</u>

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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

(1) Scope of Audit

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 transactions of the Authority are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

(3) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. All expenses, capital outlays and loan proceeds are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Authority does not elect to use the de-minimis indirect cost rate allowed under the Uniform Guidance.

(4) Loans or Loan Guarantee Programs

The Authority has two outstanding loans guaranteed by the U.S. Department of Agriculture (USDA), and one direct loan from USDA. Balances and transactions relating to these loans and loan guarantees are included in the Authority's financial statements. The balance of loans outstanding at September 30, 2017 consist of:

<u>CFDA Number</u>	<u>Loan or Loan Guarantee Name</u>	<u>Outstanding Balance At September 30, 2017</u>
10.Unknown	Rural Development Loan Guarantee: FY11	\$ 2,261,354
10.Unknown	Rural Development Loan Guarantee: FY13	9,288,632
10.Unknown	Rural Development Loan: FY15	<u>1,434,001</u>
	Total outstanding loans and loan guarantees	<u>\$12,983,987</u>

**PORT AUTHORITY OF GUAM
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 9. Identification of major federal programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
10. Unknown	Rural Development Loan and Loan Guarantee
12.607	Community Economic Adjustment Assistance for Realignment or Closure of a Military Installation

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2017-001	Local Procurement

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001
Area: Local Procurement

Criteria:

Pursuant to the Guam Procurement Law §3109(n)(1), contracts are to be awarded to the lowest responsible and responsive bidder whose bid meets the requirements and criteria set forth in the Invitation for Bids.

Condition:

Bid No. GSA/PAG-015-15 with total locally-funded expenditures of \$1,987,796 for the acquisition of 4 toplifters was awarded to the lowest bidder whose bid was not responsive. Another bidder appeared to be responsive, but the bid was higher. The procurement file did not contain a written rationale for selecting one bidder over the other.

Cause:

The cause is incomplete documentation to demonstrate full compliance with applicable procurement requirements. Also, compliance with applicable rules and procedures does not appear to have been fully followed.

Effect:

The effect of the above condition is local noncompliance with applicable Guam procurement rules.

Recommendation:

We recommend that all considerations related to the bid evaluation and selection be documented in the procurement file by the responsible personnel.

View of the Auditee and Planned Corrective Actions:

See the Corrective Action Plan.



PORT OF GUAM
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Eddie Baza Calvo
Governor of Guam
Ray Tenorio
Lieutenant Governor

Corrective Action Plan
Year Ended September 30, 2017

Finding 2017-001 – Local Procurement

Corrective Action Plan:

That the Port Authority of Guam in accordance to §5249 through §5252 of the Guam Code Annotated under the Compiler of Laws will maintain its procurement records when filing bids that they may be correct and complete before any award of contract is initiated.

A ratification has been filed to affirm award for bid GSA/PAG-015-15

Name of Contact Person:

Mark Cabrera- Buyer II, Port Authority of Guam, (671) 477-5931 ext. 454
Claudia S. Acfalle, Chief Procurement Officer, GSA (671) 475-1720

Proposed Completion Date:

Immediately

**PORT AUTHORITY OF GUAM
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Schedule of Prior Audit Findings
Year Ended September 30, 2017

Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:

No matters were reported.

Findings and questioned costs – Major Federal Award Programs Audit

<u>Finding Number</u>	<u>Findings</u>	<u>Status</u>
2016-001	Special Tests and Provisions	Corrective action was taken