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A.B. Won Pat International Airport Authority – FY 2018 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability has released the Antonio B. Won Pat International Airport Authority's (Airport) Fiscal Year (FY) 2018 financial statements, report on compliance and internal controls, management letter, auditor's communication with those charged with governance, report on compliance and internal control and schedule of passenger facility charges collected and expended, and corrective action plans.

Independent auditors Ernst & Young, LLP rendered an unmodified (clean) opinion on the Airport's financial statements and compliance over major federal programs. The Airport closed FY 2018 with an increase in net position (net income) of \$1.2 million (M), a decrease from FY 2017's restated net income of \$4.2M.

For the fourth consecutive year, the Airport qualified as a low-risk auditee. However, the independent auditors identified one material weakness relating to internal controls over work-in-progress and one significant deficiency relating to unremitted passenger facility charges that were allegedly embezzled by a Guam based manager of an airport vendor. As a result of the material weakness identified, the Airport will not be considered for the low-risk auditee status in FY 2019. A separate management letter was issued identifying four deficiencies in internal control.

Operating Revenues Decreased by \$1.1M

The Airport's operating revenues decreased by \$1.1M, going from \$70M in FY 2017 to \$68.9M in FY 2018. The decrease in revenues was due primarily to decreases in concession fees and facilities and systems usage charges. Concession fees decreased by \$1.2M, going from \$24.3M in FY 2017 to \$23M in FY 2018. Facilities and systems usage charges decreased by \$700 thousand (K), going from \$29M in FY 2017 to \$28.3M in FY 2018. Miscellaneous revenues increased by \$438K, going from \$5.1M in FY 2017 to \$5.6M in FY 2018. Rental income increased by \$390K, going from \$11.6M in FY 2017 to \$12M in FY 2018.

Operating Costs and Expenses Decreased by \$885K

The Airport's operating costs and expenses decreased by \$885K, going from \$43.6M in FY 2017 to \$42.7M in FY 2018. The decrease was primarily attributed to a \$4.4M decrease in personnel services, going from \$18.3M in FY 2017 to \$13.9M in FY 2018. The decrease was offset by a \$3.7M increase in contractual services, going from \$24M in FY 2017 to \$27.7M in FY 2018. Miscellaneous expenses increased by \$1.3M, professional services increased by \$1.2M, and power increased by \$956K.

Litigation

The Airport is involved in ongoing disputes with its former concessionaire, DFS Guam L.P. (DFS), over DFS' concession agreement that had expired in 2013. In 2014, the Airport submitted itself to arbitration. In 2016, the arbitration panel awarded DFS \$1.9M in damages plus interest, costs, and attorney's fees. The Airport is seeking to vacate and DFS is seeking to confirm the arbitration award in the Superior Court of Guam.

A separate but related action arising from this dispute has been filed by DFS in which both parties have filed claims and counterclaims against each other alleging various breaches of contract. The Airport has moved to dismiss this action for failure to prosecute. In December 2018, the Superior Court of Guam confirmed the arbitration award, however, no judgment has been issued by the court. In January 2019, the Airport received a demand from DFS that payment of \$2.2M be made due under the arbitration award plus interest to date. The Airport appealed the confirmation order in January 2019 and in February 2019, the Supreme Court found it did not have jurisdiction over the appeal because a judgment had not been entered. The Airport is still waiting for the Superior Court to enter the judgment. The range of loss, in the event the Airport must pay any judgment on the arbitration award is \$2.9M to \$3.9M.

Operations and Capital Improvement Projects

In October 2017, the Airport was recognized by the Federal Aviation Administration as the only airport in its region to pass its annual certification inspection, with a perfect 100% score with zero discrepancies. This was the second year in a row the Airport achieved this status. In October 2018, the Airport held a “sneak peak (sic)” for the completion of Phase I of the 3rd Floor Concourse Isolation project. Based on the management discussion & analysis, Phase II of the project is currently underway and expected to be completed by the end of FY 2019. The Airport believe this will bring a permanent solution to the Transportation Security Administration’s mandate to separate arriving and departing passengers and eliminate the temporary partitions that run through the existing concourse.

Report on Compliance and Internal Control

Auditors identified one material weakness relating to internal controls over work-in-progress. This matter was brought to the Airport’s attention as a result of an examination of the work-in-progress schedule that identified certain projects had no significant movement in the past fiscal years. The Airport revisited the status of all projects and identified \$2.6M in projects that should have been closed-out in earlier periods. There appeared to be a lack of sufficient coordination between the engineering and accounting departments to assess the propriety and timeliness of close-outs.

In January 2019, the Office of Public Accountability received a hotline concern related to passenger facility charges (PFC). PFC’s are collected by air carriers from passengers at the time of air travel ticket issuance. The monies, along with quarterly reports, are submitted to the Airport. After inquiring with the air carrier in question, we learned of an alleged embezzlement of \$491K of PFC by Guam based manager of the air carrier. The manager paid the Airport using his personal checks rather than with the corporate account. The circumstance transpired for between 2016 and 2018. Our office submitted this information to the independent auditors, who in turn, identified this issue as a significant deficiency.

Management Letter

A separate management letter was issued identifying four deficiencies pertaining to (1) the high volume of federal grant programs and work-in-progress construction and the need to dedicate personnel to track its compliance; (2) not assessing interest on late customs fee payments from air carriers; (3) not pursuing federal reimbursement for indirect cost; and (4) not formalizing standard operating procedures on federal awards recordkeeping.

For more details on the Airport’s operations, see the Management’s Discussion and Analysis in the audit report or visit our website at www.opaguam.org.