

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

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**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), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, have issued our report thereon dated February 26, 2014.

### **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 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*.

## **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 result 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.

*Deloitte & Touche LLP*

February 26, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 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 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, 2013.

## **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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB A-133**

We have audited the financial statements of Port Authority of Guam as of and for the year ended September 30, 2013, and have issued our report thereon dated February 26, 2014, 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 OMB Circular A-133 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 logo for Deloitte & Touche LLP, featuring the company name in a stylized, cursive script.

February 26, 2014

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Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

<u>CFDA #</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
	<u>U.S. Department of Defense</u>	
12.607	Pass through Government of Guam Office of the Governor: Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	\$ 816,373
	<u>U.S. Department of the Interior</u>	
15.605	Pass through Government of Guam Department of Administration: Sport Fish Restoration Program	509,520 *
15.875	Economic, Social and Political Development of the Territories: Port Modernization Plan	1,400,580 *
	U.S. Department of Interior Total	<u>1,910,100</u>
	<u>U.S. Department of Homeland Security</u>	
	Direct Programs:	
97.056	Port Security Grant Program	1,341,724
97.116	ARRA Port Security Grant Program (ARRA)	741,617 *
	U.S. Department of Homeland Security Total	<u>2,083,341</u>
	<u>U.S. Department of Agriculture</u>	
	Direct Program:	
10.UNKNOWN	Rural Development Loan Guarantee	12,000,000 *
	Pass through Government of Guam Department of Administration:	
10.769	Rural Business Enterprise Grants	9,333
	U.S. Department of Agriculture Total	<u>12,009,333</u>
	Total Federal Awards Expended	<u>\$ 16,819,147</u>

\* Denotes a major program.

See accompanying notes to Schedule of Expenditures of Federal Awards.

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Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2013

(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 OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Authority's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents expenditures for each Federal program related to the following agencies:

- U.S. Department of Defense
- U.S. Department of the Interior
- U.S. Department of Homeland Security
- U.S. Department of Agriculture

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards 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. All expenses, capital outlays and loan proceeds 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.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2013, the Authority's grant award notification and expenditures are as follows:

<u>CFDA Program</u>	<u>Grant Amount</u>	<u>FY 2013 Expenditures</u>
97.116 Port Security Grant Program – ARRA	\$ 910,594	\$ 741,617

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2013

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                          | Unmodified    |
| Internal control over financial reporting:                   |               |
| 2. Material weakness(es) identified?                         | No            |
| 3. Significant deficiency(ies) identified?                   | None reported |
| 4. Noncompliance material to the financial statements noted? | No            |

*Federal Awards*

- |   |               |
|---|---------------|
| Internal control over major programs:   |               |
| 5. Material weakness(es) identified?  | No            |
| 6. Significant deficiency(ies) identified?  | None reported |
| 7. Type of auditors' report issued on compliance for major programs:  | Unmodified    |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No            |
| 9. Identification of major programs:  |               |

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
15.605	Sport Fishing Restoration Program
15.875	Economic, Social and Political Development of the Territories: Port Modernization Plan
97.116	Port Security Grant Program (ARRA)
10.769	Rural Development Loan Guarantee

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

**Part II – Financial Statement Finding Section**

None reported.

**Part III – Federal Award Findings Section**

None reported.



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Schedule of Prior Year Findings and Questioned Costs  
Year Ended September 30, 2013

Unresolved Prior Year Findings and Responses

The status of unresolved prior year findings is stated below.

There are no unresolved prior year questioned costs.

Summary of Schedule of Prior Audit Findings

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

None reported.

**Findings and questioned costs – Major Federal Award Programs Audit**

Finding No. 2011 – 1 – Not corrected.

Finding No. 2011 – 2 – Not corrected.

Views of Responsible Officials and Planned Corrective Actions on Finding Nos. 2011-1 and 2011-2 related to Cash Management:

No formal cash management policy has been formulated, although the Finance Department developed a practice within the fiscal year to make payments to the vendors prior to requesting for Drawdown. However there are some situations where advanced drawdowns will be made for large expense amounts.