



Compliance and Internal Control

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

Year ended September 30, 2011

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

Reports on Compliance and Internal Control

Year ended September 30, 2011

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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, 2011, and have issued our report thereon dated January 26, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 January 26, 2012.

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

January 26, 2012

Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 Port Authority of Guam's (the Authority) 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, 2011. 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 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.

In our opinion, the Authority complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-1, 2011-2, 2011-3 and 2011-4.

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 to determine the 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 over compliance 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-1, 2011-2, 2011-3 and 2011-4. 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 yet important enough to merit attention by those charged with governance.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2011, and have issued our report thereon dated January 26, 2012. 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements 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

January 26, 2012

Port Authority of Guam
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Schedule of Expenditures of Federal Awards

Year Ended September 30, 2011

<u>Federal Grantor, Pass-through Grantor, CFDA Title, Project Name</u>	<u>Federal CFDA Number</u>	<u>FY 2011 Expenditures</u>
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	\$1,882,314*
Gregorio D. Perez Marina Renovation and Site Improvement	15.875	600,428*
Pass-through from the Government of Guam Department of Agriculture:		
Sports Fish Restoration Program	15.605	209,000*
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	1,076,095*
DEPARTMENT OF COMMERCE:		
Pass-through from the Department of Transportation/Maritime Administration:		
ARRA – Economic Adjustment Assistance (Field Investigation and Preliminary Design Work)	11.307	448,048*
DEPARTMENT OF HOMELAND SECURITY:		
Direct award:		
Port Security Grant Program	97.056	710,828*
ARRA – Port Security Grant Program	97.116	180,630*
Pass-through from the Government of Guam Department of Administration:		
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	4,334**
DEPARTMENT OF AGRICULTURE:		
Direct award:		
Rural Business Enterprise Grant	10.769	<u>40,000</u>
		<u>\$5,151,677</u>

* 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

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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 2011 *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, 2011.

3. 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 under CFDA 15.875, and the Sport Fish Restoration Program under CFDA 15.605. 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.

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Notes to the Schedule of Expenditures of Federal Awards

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 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.

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 direct awards to fund the Authority's Port Security Grant Program under CFDA numbers 97.056 and 97.116.

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.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

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?

 X **Yes** **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?

 X **Yes** **No**

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Part I - Summary of Auditor's Results, continued

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories (Port Modernization Plan) Gregorio D. Perez Marina Renovation and Site Improvement
15.605	Sport Fish Restoration Program
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation
97.116	ARRA - Port Security Grant Program
97.056	Port Security Grant Program
11.307	ARRA – Economic Adjustment Assistance (Field Investigation and Preliminary Design Work)

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

\$ 300,000

Auditee qualified as low-risk auditee?

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

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

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.

There are no material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, or abuse related to the September 30, 2011 financial statements.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

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.

Finding No. 2011 – 1

Federal Program Information:

CFDA No.:	15.875
Program Name:	Port Modernization Plan
Grantor Agency:	Department of Interior – Passed through Government of Guam Department of Administration
Federal Award Numbers:	Guam-CIP-2009-3, GR970144
Federal Award Name:	Economic, Social, and Political Development of the Territories
Federal Award Year:	2009
Area:	Cash Management

Criteria:

The OMB Circular A-133 cash management requirements states that “When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, *recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.*”

Condition:

The Authority does not have written procedures for disbursement of Federal funds to ensure that the time elapsed between the receipt and disbursement of Federal funds is minimized. Our compliance testing procedures noted the following:

Grant Number	Check Number	Date Disbursement Cleared the Bank	Amount Tested	Receipt Date of Federal Funds	Number Of Days Elapsed
Guam-CIP-2009-3	WT 79105	6/18/2011	\$ 103,985	5/23/2011	26
GR970144	WT 476937	3/30/2011	\$ 95,325	3/22/2011	8
GR970144	WT 476937	3/30/2011	\$ 189,615	3/22/2011	8

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Year Ended September 30, 2011

Finding No. 2011 – 1, continued

Federal Program Information:

CFDA No.:	15.875
Program Name:	Port Modernization Plan
Grantor Agency:	Department of Interior – Passed through Government of Guam Department of Administration
Federal Award Numbers:	Guam-CIP-2009-3, GR970144
Federal Award Name:	Economic, Social, and Political Development of the Territories
Federal Award Year:	2009
Area:	Cash Management

Questioned Cost:

No questioned costs were noted.

Cause of Condition:

Management has not established specific business processes/procedures in the finance department that will ensure the time elapsed between the receipt of Federal funds and the disbursement to vendors or contractors is minimized. Discussions with finance department personnel revealed that when Federal funds are transferred from the pass-through agency to the Authority's bank account, the finance department is not informed immediately.

Effect:

The Authority is not in compliance with the applicable cash management requirements.

Recommendation:

Management should establish specific procedures that will ensure Federal funds received are disbursed within a reasonable time.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 1, continued

Views of Responsible Officials and Planned Corrective Actions:

PAG concurs to the recommendation in this finding. The Finance department regularly checks the assigned bank account for federal funds transferred from the pass-through agency to the Authority's bank account. By the time the actual transfer is recorded in our bank account, a day or two has passed from the posting date. We normally aim to make the payment to the vendor three days after being notified that payment has been received. There are some situations wherein the authorized signatories are not available to sign the check or the wire transfer approval. If the payment is by check, the delay in posting to the vendor's bank account can be attributed to the time the check is picked up and deposited to the vendor's account. These are some of the reasons for the delay of seven to eight days since the time the funds were originally transferred to PAG's account. PAG Finance division will comply with the recommendation of establishing specific procedures that will ensure Federal Funds received are disbursed within a reasonable time.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 2

Federal Program Information:

CFDA No.: 11.307
Program Name: Field Investigation and Preliminary Design Work
Grantor Agency: Department of Commerce – Passed through the Department of Transportation/Maritime Administration
Federal Award Numbers: DTMA1H10006 (07-79-06339)
Federal Award Name: ARRA – Economic Adjustment Assistance Program
Federal Award Year: 2010
Area: Cash Management

Criteria:

The OMB Circular A-133 cash management requirements states that “When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, *recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.*”

Condition:

The Authority does not have written procedures for disbursement of Federal funds to ensure that the time elapsed between the receipt and disbursement of Federal funds is minimized. Our compliance testing procedures noted the following:

Grant Number	Check Number	Date Disbursement Cleared the Bank	Amount Tested	Receipt Date of Federal Funds	Number of Days Elapsed
DTMA1H10006	WT 542670	6/14/2011	\$ 134,451	6/6/2011	8

Questioned Cost:

No questioned costs were noted.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 2, continued

Federal Program Information:

CFDA No.:	11.307
Program Name:	Field Investigation and Preliminary Design Work
Grantor Agency:	Department of Commerce – Passed through the Department of Transportation/Maritime Administration
Federal Award Numbers:	DTMA1H10006 (07-79-06339)
Federal Award Name:	ARRA – Economic Adjustment Assistance Program
Federal Award Year:	2010
Area:	Cash Management

Cause of Condition:

Management has not established specific business processes/procedures in the finance department that will ensure the time elapsed between the receipt of Federal funds and the disbursement to vendors or contractors is minimized. Discussions with Finance Department personnel revealed that when Federal funds are transferred from the pass-through agency to the Authority's bank account, the finance department is not informed immediately.

Effect:

The Authority is not in compliance with the applicable cash management requirements.

Recommendation:

Management should establish specific procedures that will ensure Federal funds received are disbursed within a reasonable time.

Views of Responsible Officials and Planned Corrective Actions:

PAG concurs to the recommendation in this finding. The Finance department regularly checks the assigned bank account for federal funds transferred from the pass-through agency to the Authority's bank account. By the time the actual transfer is recorded in our bank account, a day or two has passed from the posting date. We normally aim to make the payment to the vendor three days after being notified that payment has been received. There are some situations wherein the authorized signatories are not available to sign the check or the wire transfer approval. If the payment is by check, the delay in posting to the vendor's bank account can be attributed to the time the check is picked up and deposited to the vendor's account. These are some of the reasons for the delay of seven to eight days since the time the funds were originally transferred to PAG's account. PAG Finance division will comply with the recommendation of establishing specific procedures that will ensure Federal Funds received are disbursed within a reasonable time.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 3

Federal Program Information:

CFDA No.:	97.056
Program Name:	Interoperable Communication Equipment & Comprehensive Portwide Surveillance System
Grantor Agency:	Department of Homeland Security
Federal Award Numbers:	2008-GB-T8-0148
Federal Award Name:	Port Security Grant
Federal Award Year:	2008
Area:	Cash Management

Criteria:

The OMB Circular A-133 cash management requirements states that “When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, *recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.*”

Condition:

The Authority does not have written procedures for disbursement of Federal funds to ensure that the time elapsed between the receipt and disbursement of Federal funds is minimized. Our compliance testing procedures noted the following:

Grant Number	Check Number	Date Disbursement Cleared the Bank	Amount Tested	Receipt Date of Federal Funds	Number Of Days Elapsed
2008-GB-T8-0148	80444	12/20/2010	\$ 472,283	11/19/2010	31

Questioned Cost:

No questioned costs were noted.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 3, continued

Federal Program Information:

CFDA No.:	97.056
Program Name:	Interoperable Communication Equipment & Comprehensive Portwide Surveillance System
Grantor Agency:	Department of Homeland Security
Federal Award Numbers:	2008-GB-T8-0148
Federal Award Name:	Port Security Grant
Federal Award Year:	2008
Area:	Cash Management

Cause of Condition:

Management has not established specific business processes/procedures in the finance department that will ensure the time elapsed between the receipt of Federal funds and the disbursement to vendors or contractors is minimized. Discussions with Finance Department personnel revealed that when Federal funds are transferred from the pass-through agency to the Authority's bank account, the finance department is not informed immediately.

Effect:

The Authority is not in compliance with the applicable cash management requirements.

Recommendation:

Management should establish specific procedures that will ensure Federal funds received are disbursed within a reasonable time.

Views of Responsible Officials and Planned Corrective Actions:

PAG concurs to the recommendation in this finding. In this particular disbursement, PAG issued the check to the vendor three days after the funds were posted to PAG bank account. Vendor picked up the check ten (10) days after it was issued and it cleared in the Port's bank account nineteen (19) days after the check was picked up.

PAG Finance division will comply with the recommendation of establishing specific procedures that will ensure Federal Funds received are disbursed within a reasonable time.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 4

Federal Program Information:

CFDA No.:	15.875
Program Name:	Gregorio D. Perez Marina Renovation and Site Improvement
Grantor Agency:	Department of Interior – Passed through Government of Guam Department of Administration
Federal Award Numbers:	Guam-CIP-2006-1 (GR670090) Guam-CIP-2007-1 (GR770061)
Federal Award Name:	Guam Infrastructure Program
Federal Award Year:	2006, 2007
Area:	Davis Bacon Act

Criteria:

The Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages no less than the prevailing wage rates. The Act states that a Contractor shall place a copy of the current prevailing wage determination in each solicitation, and award of the contract shall be conditioned upon acceptance of the wage determination. It further states that *“This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).”*

Condition:

During our testing of the compliance of the Davis-Bacon Act, we noted that the Authority did not collect weekly certified payroll reports from a contractor as required by federal regulations.

Questioned Cost:

No questioned costs were noted.

Cause of Condition:

The Authority does not have specific business processes/procedures in place to ensure reporting requirements under Davis-Bacon Act are met.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2011

Finding No. 2011 – 4, continued

Federal Program Information:

CFDA No.:	15.875
Program Name:	Gregorio D. Perez Marina Renovation and Site Improvement
Grantor Agency:	Department of Interior – Passed through Government of Guam Department of Administration
Federal Award Numbers:	Guam-CIP-2006-1 (GR670090) Guam-CIP-2007-1 (GR770061)
Federal Award Name:	Guam Infrastructure Program
Federal Award Year:	2006, 2007
Area:	Davis Bacon Act

Effect:

Without the necessary business processes/procedures in place to ensure compliance with the Davis-Bacon requirement, the Authority cannot ensure contractors and subcontractors pay the proper prevailing wages. This could result in underpayment to laborers working on future projects.

Recommendation:

We recommend that the Authority should implement controls that will ensure that progress payment requests received from the contractors are supported by certified payrolls.

Views of Responsible Officials and Planned Corrective Actions:

PAG concurs to the recommendations in this finding. We obtained an initial opinion from the Department of Interior (DOI) regarding whether the Davis Bacon Act applies to this grant. DOI will provide a formal written response, but it will go through a review process and will take some time. For the meantime, pending this formal response, the Planning, Finance, Procurement and Engineering divisions will work collaboratively to establish business processes and procedures to ensure compliance with the Davis Bacon Act requirement is adhered to. Such process should include provisions incorporated in the solicitation and contract documents, as well as, Finance and Engineering to ensure that each progress payment requests from contractors are supported by certified payroll.

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Schedule of Prior Audit Findings

Year Ended September 30, 2011

None.