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January 25, 2012

The Board of Directors  
Antonio B. Won Pat International Airport  
Authority, Guam

In planning and performing our audit of the financial statements of Antonio B. Won Pat International Airport Authority, Guam (the Authority) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 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 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.

During our audit, we noted the following deficiencies in internal control, as described above, and other matters:

### Work-In-Progress Close Outs

Condition:

We noted certain completed projects are not timely reclassified out of the work-in-progress general ledger account into the capital asset category.

Capitalization of fixed assets that are placed in service should be recorded on a timely basis. This would allow for the timely commencement of depreciation and its recognition in the proper accounting period.

Recommendation:

We recommend that the Authority review work-in-progress projects and close out portions that have been completed and placed into service at least on a semi-annual basis.

### Maintenance of Annual Leave Schedule and Supporting Documents

Condition:

We noted significant delays in the preparation of annual leave worksheets and the availability of related documents. We understand that the preparation of the annual leave worksheets is only performed at the end of the year.

Recommendation:

To ensure timely verification of accrued annual leave and accuracy of information, we recommend the Authority to perform regular updates on its annual leave worksheets, at least on a semi-annual basis. The Authority should also have adequate maintenance of approved vacation leave forms in such a way that it can easily be verified. This would also help the Authority minimize workloads at the end of the year and would facilitate early detection of potential errors.

### Environmental Services Cooperative Agreement (ESCA) Requirements and the Authority's Intended Use

Condition:

Section 301 of the ESCA between the United States Department of the Navy (the Navy), the Authority and the Government of Guam (GovGuam) states that "in consideration of the Navy's payment of the sum of \$10 million, the Authority and GovGuam assume responsibility for completion of Environmental Services in accordance with and subject to the terms of this Agreement." Although it has been noted that the \$10 million was provided as a lump sum payment rather than as progress payments for costs incurred, as noted in Section 501 of the ESCA, the Authority and GovGuam are still bound to the agreement, which includes Performance Specifications as outlined in Appendix 1 of the ESCA. It was further noted that the tasks listed in the Performance Specifications are very similar to the water system infrastructure project which was funded by the Federal Aviation Administration (FAA). As a result, the FAA questioned the Authority's use of the \$10 million.

Recommendation:

Although it appears the Authority acted within their means by seeking outside funding for the water system project, the completed water system needs to be compared to the requirements of the ESCA to determine if all requirements noted in the ESCA have been accomplished. Section 701 of the ESCA states that "This Agreement shall remain in effect until Regulatory Concurrence has been achieved, Remedial Construction has been completed, and the warranty required by the CERCLA Section 120 has been issued..." The Authority should request for a review to determine what requirements are still outstanding and update their understanding of what is expected of them.

## ESCA Requirements and the Authority's Intended Use, continued

### Recommendation, continued:

While we understand that approximately \$3.9 million has already been spent, we recommend that the Authority prepare a detailed document of their intended purpose for the remaining funds from the \$10 million received. Additionally, it may be worthwhile for the Authority to disclose receipt of these funds when applying for funding from outside sources, especially for projects similar to those listed in Appendix 1 of the ESCA.

### **Note for reference related to the above observation:**

Section 580(a) of the AIP Handbook states that an environmental mitigation project is eligible as airport development if it is a condition of approval of an environmental action associated with an AIP funded airport development project. It further notes that "Frequently environmental impact statements include both eligible and ineligible projects. Therefore, inclusion of a mitigation measure in an environmental impact statement does not automatically make the mitigation measure eligible for federal funding."

## Review of Legal Issues Identified Related to the Water System

### Condition:

The FAA requested that an independent engineering firm review the design and construction of the Authority's water system to determine if it was done in accordance with the grant application and in compliance with the grant agreements and other applicable requirements. The engineering firm presented their "final draft" report, dated December 19, 2011, that documented the results of their review. Included in the report were potential legal issues related to the ownership and use of existing wells NAS-1 and M-21.

As noted in a letter dated June 16, 2006, the FAA has instructed the Authority to permanently disconnect the water system from GWA so that it shall only provide services to the airport. Although the NAS-1 well is not on airport property and was not funded using FAA MAP funds, NAS-1 remains an issue since it provides water to airport facilities not initially served by the Authority's water system. Additionally, the Authority maintains responsibility for funding of the GAC treatment as noted in the ESCA.

## Review of Legal Issues Identified Related to the Water System, continued

### Condition, continued:

Well M-21 lies on airport property, was funded by in the late 1990's by the Authority capital improvement funds and is owned and operated by GWA. Although M-21 can be considered to supply water to the Authority, the line runs to GWA's Mt. Barrigada reservoir and as such, the water is commingled with other well sources. There exists two concerns with well M-21, the first is that the well was not connected to the Authority's water system and the second is whether or not GWA's continued use of the well violates the FAA's policy regarding revenue diversion (airport funds were used to pay for the system, however the Authority believes these costs preceded FAA's policy and procedures concerning the use of airport funds).

### Recommendation:

Although we understand that the Authority's intention of maintaining connections with GWA is for back-up in case of emergency, we recommend that they obtain, in writing, consent from FAA acknowledging this practice as acceptable since it is not in line with the terms of FAA's June 16, 2006 letter. This should include a statement noting which areas of the airport are not included with the water system and as a result would require further service from GWA.

We further understand that the water system is currently being reviewed by FAA and the matters noted above may be addressed. As the issues remain open, we recommend that the Authority also consider seeking legal opinion to address these issues or a written opinion from FAA on their positions regarding these matters.

## Lack of Disconnection Plan

### Condition:

The FAA requested an independent engineering firm review the design and construction of the Authority's water system to determine if it was done in accordance with the grant application and in compliance with the grant agreements and other applicable requirements. An observation included in the engineering firm's report is a lack of a disconnection plan and potential hazard of the 16-inch water line (owned by GWA) that is located under the airport runway. Under Change Order No. 1 of the Authority's water system project, this line was to be plugged, however there are existing GWA customers, who are not on airport property, that are serviced by this line, thus posing a problem.

The Authority noted that access to GWA's water lines will be maintained as a back-up in the event the Authority's water system is not working. The Authority has also asserted that as of September 30, 2011 and for the first year of operation, the water produced from the Authority's water system will only service airport areas.

### Lack of Disconnection Plan, continued

#### Recommendation:

As recommended in the previous comment, the Authority should obtain written acknowledgement from FAA consenting to connection to GWA's water line as a back-up source of water and that a total disconnection from GWA will not be performed.

To address the plugging of the 16-inch water line under the runway would require coordinated efforts with GWA. As this may take time for planning and additional funding to carry out the project, we recommend that the Authority document their plan and provide a timeline to resolve this issue.

### Clarification on Davis-Bacon Act Rates

#### Condition:

The Authority is required to comply with provisions of the Davis-Bacon Act for construction contracts over \$2,000 and that are funded with federal grants. The Davis-Bacon Act requires that laborers be paid based on the wage determination in effect that the contract was granted. To ensure compliance, certified payrolls should be submitted by the contractors for applicable projects.

We noted certain certified payrolls included the position "screedman" which is not listed in the Davis-Bacon Act wage determination. Upon clarification with the contractor, they noted this position is similar to that of an "assistant heavy equipment operator." Positions with "assistant" or "helper" added to their titles are not specifically address in the Davis-Bacon Act wage determinations. As such, the Authority requested for the U.S. Department of Labor to provide rates for the position not listed. We noted that the Authority's contractor had submitted a request subsequent to prior year's fiscal year-end, however no response or update has been received to date.

#### Recommendation:

To ensure full compliance with the Davis-Bacon Act, we recommend that the Authority review the positions currently used by the contractors and make a timely request to clarify positions not listed in the wage determinations and follow-up on those requests.

## Documented Procedures for the Processing of Federal Awards

### Observation:

A handbook describing standard operating procedures on recordkeeping over federal awards should be created and personnel should be cross-trained to handle recordkeeping and reporting of federal awards. The Authority's accounting division does not have a written policy that describes staff responsibilities nor does it provide procedures for periodic monitoring, verification and reporting of program progresses and accomplishments. In addition, there is no formal tracking system to alert staff of when the financial and federal reports are due.

Although the Authority remains diligent in complying with the terms of the grant agreements, we noted improvements can be made to the grant reimbursement process and review of certified payrolls.

### Recommendation:

The Authority should establish written policies for the processing of financial and federal transactions, as well as policies to enhance compliance with the terms of the grant agreements. The Authority should also create a formal system to enhance its timely processing and review for reporting.

## Customs Fees

### Condition:

Under Public Law 23-45, the Authority assesses and collects from air carriers, fees for customs and agricultural inspection services rendered at the terminal. The air carriers are required to remit these fees to the Authority within 30 days from collection; otherwise a 10% interest should be levied to the air carrier. The Authority is required to remit all collections, within five days of receipt, to the Treasurer of Guam (TOG) for deposit to the Customs, Agriculture and Quarantine Services Fund.

We noted the following delays in collection of fees from air carriers:

<b>Air Carrier</b>	<b>Amount</b>	<b>Invoice Date</b>	<b>Date of Receipt</b>	<b>No. of Days</b>
6404	\$14,360.88	4/16/11	5/26/11	40
6580	79,417.32	5/13/11	6/29/11	47
7026	19.08	5/13/11	6/30/11	48

The aforementioned air carriers missed the 30-day deadline to remit customs fees to the Authority. However, no interest was charged to these air carriers.

Customs Fees, continued

Condition, continued:

We also noted the following delays in remittances of fees to TOG:

<b>Month</b>	<b>Air Carrier</b>	<b>Amount</b>	<b>Date of Receipt</b>	<b>Date of Remittance</b>	<b>No. of Days</b>
Jan-11	6002	\$40,952.04	12/30/10	01/14/11	15
	6141	15,702.84	01/04/11	01/14/11	10
	6002	27,926.76	12/30/10	01/14/11	15
	6367	77,064.12	01/03/11	01/14/11	11
Apr-11	6001	330,185.76	03/25/11	04/01/11	7
Jun-11	6002	16,523.28	05/27/11	06/03/11	7
	6404	14,360.88	05/26/11	06/03/11	8
Jul-11	6002	25,166.52	06/27/11	07/05/11	8
Aug-11	6001	217,314.84	07/29/11	08/05/11	7
Sep-11	6001	292,706.28	08/25/11	09/01/11	7
	6002	30,528.00	08/26/11	09/01/11	6

The Authority missed the five-day deadline to remit customs fees. The combined Customs Fees and Landing and Parking payments made by the air carriers are deposited directly to the Authority's General Revenue Funds. The Customs Fees are then segregated and transferred to the Customs Facilities Charges account.

Recommendation:

The Authority should continue its efforts to reduce or eliminate delays and remit collections from air carriers to the TOG within five (5) days of receipt, in accordance with the requirements of PL 23-45. We recommend that the Authority and the Director of the Customs & Quarantine Agency make a determination as to who will levy the 10% interest on air carriers that do not remit the fees within the 30-day prescribed period.

Antonio B. Won Pat International Airport Authority, Guam  
Management Letter

**Reiteration of previous year's comments and recommendations:**

Cost of Evaluation Studies

Condition:

We understand the Authority incurs costs to perform evaluation studies required under its grant agreements. The Authority capitalizes these costs and amortizes them over a 15-year period. These studies, at times, are replaced by other studies and written off prior to the expiration of the 15-year amortization period. In addition, there is no specific identifiable project that they relate to.

Recommendation:

The Authority should revisit the appropriateness of the useful life assigned to the cost of these studies for amortization purposes.

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This communication is intended solely for the information and use of management and the Board of Directors of the Authority, others within the organization, and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Ernst + Young LLP*