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Port Authority of Guam FY 2008 Highlights

The Port Authority of Guam (Port) closed another fiscal year (FY) with an increase in net assets of \$737 thousand (K) primarily due to an increase in operating income of 5% or \$1.3 million (M). However, the Port's revenue increases were offset by larger increases in operating expenses of \$2M, a 7% increase from the prior year. The Port is the second government entity to issue its financial audit and has received an unqualified (clean) opinion from independent auditors Deloitte and Touche LLP. The Port's compliance report, which reports deficiencies in internal controls, identified a material weakness of a sole source procurement that resulted in \$64,276 in questioned costs. Deloitte also issued a separate management letter identifying seven control deficiencies.

Revenues Increase Despite Flat Container Handling Activity

Although container handling activity remained flat for FY 2008 the operating revenues of the Port increased due to higher rates, either newly established or amended, for cargo throughput and equipment and lease rentals. Cargo throughput rose from \$21.3M to \$21.9M in FY 2008, a 3% increase. Equipment and space rental increased by 22% or \$711K to \$3.9M. Port management attributed these increases to several new lease agreements. The Port also reported an 8% decline in the number of containers handled for the first quarter of FY 2009, a reflection of the current economic crisis. This may have an impact on the Port's FY 2009 operations.

Rising Operating Expenses in FY 2008

The Port's total operating expenses continue to escalate from \$27M in FY 2007 to \$29M in FY 2008, a 7% increase of nearly \$2M. The largest increases were for utilities, equipment maintenance, and legal expenses. The Port experienced a 31% rise in utilities paying \$1.7M in FY 2008 from \$1.3M in the prior year due to the increasing cost of power. Legal expenses rose by nearly \$400K primarily due to litigation over the procurement of the Port's gantry crane. Costs for equipment maintenance rose by 12.2% to \$5.8M from the prior year. Salaries, wages, and benefits also rose slightly by \$295K while the number of Port employees increased from 325 in 2007 to 345 in 2008.

Non-Operating Benefits to Retirees Increase Dramatically

Increased expenses for cost of living allowances (COLA)/supplemental benefits were among the highest at 56% up \$643K from \$1.1M in FY 2007 to \$1.8M in FY 2008. Supplemental benefits include retirement, COLA, medical, dental, and life insurance. In the fiscal year, medical and dental payments to Port retirees increased by \$637K alone or about 159% from \$402K in FY 2007 to \$1M in FY 2008. The payments for Port retiree medical and dental insurance far exceeded the supplemental annuities of \$691K combined.

Port Master Plan

In FY 2008, the Port completed its 20-year Master Plan (Plan), which lays the foundation for the Port's modernization of its commercial cargo terminal facilities as well its plan to meet the impending military build up. The Plan reported that a major modernization of the Port's facilities would cost \$195M in 2008 dollars as the Port has not undergone a major renovation since 1969. The Plan along with a Financial Feasibility Study were performed by Parsons Brinckerhoff International Inc. and cost approximately \$465K and \$266K respectively.

Report on Compliance and Internal Control

A material weakness of sole source procurement resulted in \$64,276 in questioned costs. The finding was cited for the Port Security Grant for the purchase of a Closed Circuit TV (CCTV). The Port explained that the General Services Agency's (GSA) rationale to approve the Port CCTV sole source procurement was based on a CCTV sole source made by the Guam Office of Homeland Security (OHS) which was similar in scope. Each had the objective to attain interoperability and standardization of equipment. The independent auditors reported that despite the rationale to follow OHS on the sole source procurement process no documentation was on file to indicate how the Port determined that no other vendor could provide the CCTV equipment being purchased.

In a separate management letter, the auditors also identified seven control deficiencies, which deal with computer data security, lease invoicing, and other matters of procurement. Repeat management findings from 2007 include:

- Finding Number 1: Accounting personnel have access to other computer application programs outside of their areas of responsibility.
- Finding Number 2: Certain Port employees have been detailed to the government of Guam GSA to be trained on procurement policies and procedures for more than a year. However, GSA has not provided a formal documented training program for the employees and a date for their return to the Port.

See the Management Discussion and Analysis for more details.

These reports may be downloaded at www.guamopa.org and www.portofguam.com.