

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

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

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**YEAR ENDED SEPTEMBER 30, 2003**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors  
Guam International Airport Authority:

We have audited the financial statements of the Guam International Airport Authority (GIAA), as of and for the year ended September 30, 2003, and have issued our report thereon dated January 9, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether GIAA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GIAA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect GIAA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-1 through 2003-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 2003-1 is a material weakness.

This report is intended for the information of the Board of Directors and management of GIAA, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

*Deloitte + Touche LLP*

January 9, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors  
Guam International Airport Authority:

Compliance

We have audited the compliance of the Guam International Airport Authority (GIAA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2003. GIAA's major federal programs are identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of GIAA's management. Our responsibility is to express an opinion on GIAA'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 GIAA'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 on GIAA's compliance with those requirements.

As described in finding numbers 2003-7 and 2003-9 in the accompanying Schedule of Findings and Questioned Costs, GIAA did not comply with requirements regarding procurement, Davis-Bacon Act and Special Tests and Provisions that are applicable to its Highway Planning and Construction (CFDA No. 20.205) and Airport Improvement (CFDA No. 20.106) programs. Compliance with such requirements is necessary, in our opinion, for GIAA to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, GIAA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2003.

## Internal Control Over Compliance

The management of GIAA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GIAA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect GIAA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 2003-7 through 2003-9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers 2003-7 and 2003-9 to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of GIAA as of and for the year ended September 30, 2003, and have issued our report thereon dated January 9, 2004. 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. The accompanying schedule described above is not a required part of the financial statements. This schedule is the responsibility of the management of GIAA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended for the information of the Board of Directors and management of GIAA, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.



January 9, 2004

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2003

Federal Program/Project Title	CFDA Number	Project No.	Program or Award Amount	Receivables from Grantor at 10/01/02	Cash Receipts FY 2003	Expenditures FY 2003	Receivables from Grantor at 09/30/03
U.S. Department of Transportation							
Direct Programs:							
Airport Improvement Program:							
Rehabilitate runway 6R/2L	20.106						
Construct parallel taxiway (note 3)	20.106	3-66-0001-19	\$ 4,608,018	\$ 22,445	\$ -	\$ -	22,445
Construct parallel taxiway (note 3)	20.106	3-66-0001-21	2,386,699	47,500	22,870	11,986	36,616
Construct parallel taxiway (note 3)	20.106	3-66-0001-22	425,976	7,898	3,812	1,998	6,084
Construct noise compatability	20.106	3-66-0001-23	450,000	38,599	38,599	-	-
Construct parallel taxiway (note 3)	20.106	3-66-0001-24	2,202,325	33,565	16,200	8,490	25,855
Construct parallel taxiway (note 3)	20.106	3-66-0001-25	328,400	6,002	2,859	1,498	4,641
Construct loop taxiway (note 3)	20.106	3-66-0001-26	1,760,013	25,823	12,388	6,493	19,928
Rehabilitate runway 6L/24R	20.106	3-66-0001-27	850,000	-	-	-	-
Construct loop taxiway (note 3)	20.106	3-66-0001-28	5,958,210	121,096	18,739	30,632	132,989
Extend and rehabilitate runway 6L/24R	20.106	3-66-0001-29	4,590,000	12,055	107,575	98,249	2,729
Update airport master plan study	20.106	3-66-0001-30	540,000	367,737	197,052	76,951	247,636
Acquire land and relocation	20.106	3-66-0001-31	1,296,226	156,140	150,214	26,612	32,538
Acquire ARFF Vehicles	20.106	3-66-0001-32	2,366,608	-	767,174	769,298	2,124
Compensation of direct cost associated with new and revised security requirements	20.106	3-66-0001-33	2,130,676	33,500	2,130,676	748,224	(1,348,952)
Compensation of direct cost associated with new and revised security requirements	20.106	3-66-0001-34	2,182,341	(584,032)	-	584,032	-
Security enhancements-phase 1	20.106	3-66-0001-35	5,454,744	23,817	160,353	138,516	1,980
Rehabilitate TB & ARFF Bldg.; Install security fencing; repair SACS & misc. Nav Aids (typhoon damages)	20.106	3-66-0001-36	3,700,000	-	1,804,612	1,883,907	79,295
Replace airfield signage and lighting; Procure/install 2 LB; Repair 14 LB; Rehab ARFF Bldg; Replace/install perimeter fence (typhoon damages)	20.106	3-66-0001-38	16,900,000	-	136,913	195,823	58,910
Rehabilitate Rwy 6L/24R & Taxiway; Repair Airfield Lighting Vault & Terminal Bldg (earthquake damages)	20.106	3-66-0001-39	2,095,676	-	-	37,078	37,078
Airport Improvement Program Total	20.106		60,225,912	312,145	5,570,036	4,619,787	(638,104)
Highway Planning and Construction	20.205	GU-AP66(001)	5,743,624	2,206,345	4,304,673	2,935,826	837,498
U.S. Department of Transportation Total			65,969,536	2,518,490	9,874,709	7,555,613	199,394
Federal Emergency Management Agency							
Pass-Through Government of Guam:							
Typhoon Paka	83.544		1,237,090	414,128	232,766	-	181,362
Typhoon Pongsona	83.544		-	-	106,108	106,108	-
Total Federal Awards Expended			\$ 67,206,626	\$ 2,932,618	\$ 10,213,583	\$ 7,661,721	\$ 380,756

See accompanying notes to the Schedule of Expenditures of Federal Awards.

## GUAM INTERNATIONAL AIRPORT AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards  
September 30, 2003

### (1) Source of Funding

GIAA's Airport Improvement Program and Highway Planning and Construction Program are funded primarily through grants from the U.S. Department of Transportation under Catalog of Federal Domestic Assistance (CFDA) numbers 20.106 and 20.205, respectively.

### (2) Summary of Significant Accounting Policies

#### a. Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

For purposes of this report, certain accounting procedures were followed which facilitate the presentation of the federal cumulative amount of the grant award and federal funds received and disbursed. Cash receipts relate to all cash received from the cognizant federal agency within the Catalog of Federal Domestic Assistance. Cash receipts do not include matching funds from GIAA. All expenses and capital outlays which represent the federal share of each project are reported as expenditures.

GIAA recognizes contributions from the federal government when qualifying expenditures are incurred and expenditures are recognized on the accrual basis of accounting.

Any qualifying funds expended in excess of federal funds received are recorded as receivables from the grantor agency.

#### b. Matching Requirements

In allocating project expenditures between the federal and local share, a percentage is used based upon local matching requirements unless funds are specifically identified to a certain phase of the project.

#### c. Indirect Cost Allocation

GIAA does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for the year ended September 30, 2003. The Federal Aviation Administration programs do allow, upon prior grantor approval, certain administrative expenses to be charged against the grants.

### (3) Cost Allocation

Grant numbers 33-66-0001-21, 22, 24, 25, 26 and 28 are commingled to fund construction of parallel taxiway. Qualifying expenditures are allocated among these six grants.

### (4) Federal Emergency Management Agency (FEMA)

The FEMA grants for typhoons Paka and Pongsona are received in a subrecipient capacity through the Government of Guam.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, one of which was considered to be a material weakness.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, two of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Organization's major program are:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106
Highway Planning and Construction	20.205

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

### Part II - Financial Statement Findings Section

<u>Finding Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2003-1	Procurement of Construction Contracts	\$ -
2003-2	PFC Revenues	\$ -
2003-3	Payments to Subcontractors	\$ -
2003-4	Travel Advance	\$ -
2003-5	Procurement	\$ -
2003-6	Accounting for Construction in Progress	\$ -



**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule of Findings and Questioned Costs  
September 30, 2003

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2003-7	20.106	Special Tests and Provisions	\$ 2,860,521
2003-8	20.205	Davis Bacon Act	-
2003-9	20.106 and 20.205	Procurement	<u>356,898</u>
		Total Federal Questioned Costs	\$ <u>3,217,419</u>

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule of Findings and Questioned Costs  
September 30, 2003

Finding No. 2003-1 – Procurement of Construction Contracts

Criteria:

A request for proposal (RFP) is required for each construction project greater than \$50,000. Change orders should only be utilized for unexpected overruns of cost and necessary revisions related to the project, not to circumvent procurement regulations.

Condition:

During the years ended September 30, 2003 and 2002, several change orders to the Terminal Building general contract were made to include costs incurred for projects that are unrelated to the original terminal building project.

1. Change order for renovations for the Terra Cotta Warrior Exhibit	\$ 578,989
2. Change order for VIP lounge and Governor’s statues	5,550,000
3. Change order for other furniture	<u>85,375</u>
	\$ <u>6,214,364</u>

We noted that these items were procured by the previous Airport management. The VIP lounge and Governor’s statues projects were cancelled by the current Airport management.

Cause:

There appears to have been management override of internal controls over procurement.

Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority appears to be in noncompliance with procurement rules and regulations.

Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

Recommendation:

We recommend that the Authority properly follow procurement regulations.

Auditee Response:

Although initiated by prior airport management, the change orders for the VIP lounge, governors’ statues and furniture were to be a part of the terminal building and the renovations for the Terra Cotta Warrior exhibit were made as part of an airport marketing activity. This work was issued to the general contractor of the terminal building who, at the time, had an active contract. It further appears that the additional rationale by prior management for the change orders was for the sake of expediency and also to avoid unresolved issues with the Department of Public Works on the procurement authority delegation. Present management is unconditionally committed to following the procurement rules and regulations. In addition, the GIAA Board Standing Committee for Expansion/Construction has oversight on change orders and contract modifications to ensure all change orders are related to the original project scope.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Finding No. 2003-2 – PFC Revenue

#### Criteria:

Calculation of the Passenger Facility Charge revenues recorded should be supported with proper documentation.

#### Condition:

In one out of 25 samples tested, there was a lack of documentation to support the revenue calculation. The airline check stub provided included the number of enplaned passengers. However, the PFC rate could not be determined.

#### Cause:

The airline used different rates within the same period.

#### Effect:

Revenues may be immaterially misstated.

#### Recommendation:

We recommend that the Authority obtain documents necessary to ensure that revenue amounts are properly recorded.

#### Auditee Response:

The PFC rate increased from \$3.00 to \$4.50 per eligible passenger effective November 1, 2002. The GIAA was not able to determine the accuracy of the airlines' calculations as the number of enplaned passengers in a period is not a factor in determining PFC revenue but rather the particular time a ticket was purchased. During this time, the old and new rate were mixed as passengers who had purchased their tickets prior to the effective date of November 1, 2002 could have travel occurring on or after November 1, 2002. This information was not available to us from the airlines. However, the GIAA is reviewing Federal policies and procedures for conducting a comprehensive audit of airline PFC revenues.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Finding No. 2003-3 – Payments to Subcontractors

#### Criteria:

Proper procurement procedures should be utilized for all contractual services obtained by the Authority. Use of sub-contractors should be minimized and approved by the Authority.

#### Condition:

We noted several payments made to the subcontractors of the Authority's consultant for which procurement information was not available:

<u>Date</u>	<u>Project Description</u>	<u>Amount</u>	
Oct-02	Terminal Package 3 - General Construction	\$ 1,627	Sub-consultant
Nov-02	Terminal Package 3 - General Construction	1,085	Sub-consultant
Dec-02	Terminal Package 3 - General Construction	1,085	Sub-consultant
Jan-03	Terminal Package 3 - General Construction	1,085	Sub-consultant
Apr-03	Terminal Package 3 - General Construction	937	Sub-consultant
Jun-03	Terminal Package 3 - General Construction	886	Sub-consultant
Aug-03	Terminal Package 3 - General Construction	886	Sub-consultant
Sep-03	Terminal Package 3 - General Construction	886	Sub-consultant
Oct-02	Tiyan Acquisition and Redevelopment	6,830	Sub-consultant
Oct-02	Tiyan Acquisition and Redevelopment	4,038	Sub-consultant
Oct-02	Tiyan Acquisition and Redevelopment	2,034	Sub-consultant
Aug-03	Tiyan Acquisition and Redevelopment	950	Sub-consultant
Aug-03	Tiyan Acquisition and Redevelopment	1,108	Sub-consultant
Sep-03	Tiyan Acquisition and Redevelopment	1,108	Sub-consultant
Oct-02	Passenger Service & Outreach Program	1,431	Sub-consultant
Dec-02	Passenger Service & Outreach Program	954	Sub-consultant

These subconsultants were hired by the Airport Consultant but contract with and are paid by the Authority.

These contracts were entered into by the previous Airport management.

#### Cause:

There appears to be weak internal controls over procurement.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs  
September 30, 2003

## Finding No. 2003-3 – Payments to Subcontractors, Continued

### Effect:

There is no known effect on the financial statements as a result of this condition; however, the Authority appears to be in noncompliance with its rules and regulations on procurement and contract approval.

### Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

### Recommendation:

We recommend that proper procurement procedures be followed for solicitation of services.

### Auditee Response:

The engineer consultants whom have a direct contractual relationship with the GIAA has since been resolved through the issuance of Request for Proposals. Although sub-consultants have been significantly minimized, the Airport Consultant's agreement provides for sub-consultants when needed. These formal sub-consultant agreements are approved and executed by the GIAA. Future contracts with sub-consultants amounting to more than \$50,000 will reflect approval by the GIAA Board.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Finding No. 2003-4 – Travel Advance

#### Criteria:

Under section 6.01 of the Authority's Travel Policy, all travelers are required to submit a Travel Expense Report to the Authority within ten (10) calendar days after returning from travel. The accounting department should then review invoices supporting the Travel Expense Report to validate charges made and to determine whether a shortage or overage occurred and correspondingly seek reimbursement from/to the traveler.

#### Condition:

We reviewed eight travel authorizations (TA) and noted that for six TA's, a final expense report was filed late.

<u>Travel Authorization</u>	<u>Date returned</u>	<u>Date Filed</u>	<u>Days Late</u>
TA-03-11-112	11/20/02	2/3/03	65
TA-03-11-113	11/20/02	3/5/03	95
TA-03-10-022	10/16/02	2/3/03	100
TA-03-10-023	10/16/02	10/30/02	4
TA-03-10-024	10/17/02	Unknown	Unknown
CK#0079776	10/16/02	8/8/03	296

Additionally, for three TA's, an affidavit of charges incurred was provided by the traveler as the original receipts could not be located. For six TA's, we noted that the traveler flew business class.

#### Cause:

The Authority is not monitoring the status of outstanding travel expense report.

#### Effect:

Noncompliance with Authority policies and procedures results from the condition. In some cases, travelers may have been compensated for improper or nonexistent expenses.

#### Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

#### Recommendation:

We recommend that the status of outstanding travel expense reports be monitored more closely. We also recommend that travel advances be recorded as receivables from employees and reversed upon receipt of final travel expense report with supporting invoices. We recommend that a policy be in place to take action against the employee, such as restitution through payroll deduction, if the employee fails to file the expense report timely or fails to produce all supporting invoices.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule of Findings and Questioned Costs  
September 30, 2003

Finding No. 2003-4 – Travel Advance, Continued

Auditee Response:

Under the GIAA Amended Travel Policy (adopted by the GIAA Board in January 15, 2004), travel per diem is now consistent with the amount authorized by law. Any failure on the employee's part to submit an expense report within 10 days following return from official travel, the traveler will result in not being paid any amount in excess of the per diem rate. Our personnel office is closely monitoring all travel and expense reports to ensure timeliness.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Finding No. 2003-5 – Procurement

#### Criteria:

In accordance with the Government of Guam procurement policies and procedures, all Government of Guam procurement shall fall into the categories specified under the GSA Handbook.

#### Condition:

- 1) For 8 (or 32%) out of 25 transactions tested, the procurement documents did not include a written rationale for the vendor selected for the following transactions:

<u>PO#</u>	<u>Amount</u>	<u>Description</u>
40023	\$ 43,540.00	Tech assist. Services in the CADD room
40025	150,000.00	Mktg. Projects & community outreach program
40134	60,000.00	Airport Consultant for equip. facilities
40375	317,719.00	Typhoon Pongsona - generators
40579	8,503.64	Professional services
40646	6,724.44	Professional services
40745	92,000.00	Shipping for return of Yellow River Artifact Exhibit
41098	18,880.00	Typhoons Chata'an and Halong clean up and debris removal

- 2) "The determination of sole source procurement" letter could not be located for PO# 41006 amounting to \$10,000. This was a blanket purchase order for emergency parts and supplies for air conditioner chiller units.
- 3) PO# 40928 for \$77,115 dated July 15, 2003 was issued to cover three invoices received by the Authority several months earlier.

<u>Invoice #</u>	<u>Date</u>	<u>Amount</u>
0687	12/12 – 12/13/02	\$ 632.00
0695	7/14/02	20,748.65
0697	12/9/02	55,739.54

- 4) PO#40693 is a contract renewal. The initial project was bid during FY 1999 and was awarded to the lowest responsible bidder. Per review of the special provisions in the request for proposal, the contract period was for one year with a renewal option for two additional years not to exceed three years. The Authority could not locate the contract purchase order for the first year of service. Therefore, it could not be determined if these services were covered under the two-year option.
- 5) For contract/invoice #'s 2002-007 and 2002-008 totaling \$86,500, no justification of vendor selection was documented. Contractor services included service contact lists of air carriers in Asia-Pacific region (Philippines, Taiwan, China and Hong Kong), contacts with civil aviation and airport authorities, develop opportunities for air services, etc.



# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Finding No. 2003-5 – Procurement, Continued

#### Cause:

There appears to be weak internal controls over ensuring compliance with GSA procurement requirements.

#### Effect:

The Authority is not in compliance with GSA procurement requirements.

#### Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

#### Recommendation:

The Authority should evaluate and strengthen internal controls over procurement procedures.

#### Auditee Response:

Under the guidance of the new GIAA Board of Directors, all procurement of supplies and services are under greater scrutiny by new management to ensure compliance with Guam Procurement Regulations. It is important to note that since taking office in January 2003, Management was faced with having to address numerous unauthorized procurement and unpaid invoices for services received by the Authority.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

### Finding No. 2003-6 – Accounting for Construction in Progress (CIP)

#### Criteria:

Controls over CIP accounting should be established to ensure that costs included in CIP are capitalizable and that projects are promptly transferred out of CIP into fixed assets upon completion.

#### Condition:

At September 30, 2003, CIP included a project costing \$578,989 that provided no future benefit to the Authority and should have been expensed. CIP also included a project that was completed in a prior year and should have been transferred to fixed assets.

These conditions were corrected during the audit.

#### Cause:

The Terminal Building general contract (TP-3) CIP account includes several unrelated projects. This condition makes monitoring the individual projects difficult.

#### Effect:

Expenses could be understated. Depreciation expense for 2003 is immaterially understated.

#### Recommendation:

Projects in CIP should be individually accounted for and monitored to ensure prompt transfer to fixed assets upon completion.

#### Auditee Response:

Although the conditions noted were corrected, GIAA will ensure that subsequent expenditures under the Capital Improvement Program meet the eligibility criteria for a capital project as well as the timely closure of completed projects from the Work-In-Progress account.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

Finding No.: 2003-7  
CFDA No.: 20.106  
Program Name: Airport Improvement Program  
Area: Special Tests and Provisions  
Questioned Costs: \$2,860,521

### Criteria:

In accordance with OMB Circular A-133 special tests and provisions, all revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

### Condition:

The Authority expended revenues on projects that are neither capital or operating costs of the airport nor are they directly and substantially related to the actual air transportation of passengers or property, as follows:

<u>Project</u>	<u>Expenditure</u>
Governor Statues	\$ 1,230,000
Terra Cotta Warrior Exhibit	<u>1,630,521</u>
Total	\$ <u>2,860,521</u>

We noted that the previous Airport management entered into the agreements for these expenditures.

### Cause:

There appears to be a lack of internal controls over ensuring compliance with OMB Circular A-133 special tests and provisions.

### Effect:

The Authority expended \$2,860,521 in airport revenues on projects that do not appear to be capital or operating costs of the airport. The Federal Aviation Administration could impose the following sanctions: withhold future grants, withhold approval of the modification of existing grant agreements that would increase the amount of funds available, withhold payments under existing grants, withhold approval of an application to impose a passenger facility charge, and/or assess civil penalties up to a maximum of \$50,000.

### Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

### Recommendation:

The Authority should establish and implement internal controls to ensure that all revenue is expended for the capital or operating costs of the Airport. Prior to approving requisition forms and/or payment requests, the responsible personnel should determine that such goods/services are airport costs directly and substantially related to the actual air transportation of passengers or property. If any doubt exists, Board approval should be obtained.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

Finding No.: 2003-7, Continued  
CFDA No.: 20.106  
Program Name: Airport Improvement Program  
Area: Special Tests and Provisions  
Questioned Costs: \$2,860,521

### Auditee Response:

As discussed in the previous year's report for this same finding, prior management believed these project and marketing activities to be justified as airport-related activities and within FAA compliance. The statues were programmed to be located in the terminal building as in the case of art or historical exhibits for the benefit of our tourist passengers. The Terra Cotta Warrior Exhibit was a marketing event that prior management believed to fall within the FAA's Policy on the Use of Airport Revenues and highlighted in prior FAA correspondence. The new GIAA Board and management have since curtailed such projects and marketing activities.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule of Findings and Questioned Costs  
September 30, 2003

Finding No.: 2003-8  
CFDA No.: 20.205  
Program Name: Highway Planning and Construction  
Area: Davis-Bacon Act  
Questioned Costs: \$0

Criteria:

The Davis Bacon Act requires that all laborers and mechanics employed by contractors or sub-contractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the Department of Labor.

Condition:

Based on review of the submitted certified payrolls from sub-contractors, the following conditions existed:

<u>Pay Period</u>	<u>Position</u>	<u>Hourly Wage Paid</u>	<u>Prevailing Wage Rate</u>	<u>Difference</u>
12/15/02 & 12/31/02	Heavy Equipment Operator	\$10.00	\$12.81	\$2.81
	Construction Helper	\$7.00-\$8.00	\$ 8.95	\$0.95-\$1.95
12/15/02 & 12/31/02	Truck Drivers			
	2 employees	\$6.50	\$12.99	\$6.49
	9 employees	\$8.00	\$12.99	\$4.99
	1 employee	\$12.00	\$12.99	\$0.99

Cause:

There appears to be some confusion as to the applicability of the Davis-Bacon Act to this program by the contractor/sub-contractor. Also, the engineer consultants hired to monitor these contracts did not have adequate knowledge of Davis-Bacon Act requirements.

Effect:

The Authority is not in compliance with the Davis -Bacon Act.

Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

Recommendation:

Personnel in charge of monitoring compliance with federal requirements should be properly trained and advised.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

Finding No.: 2003-8, Continued  
CFDA No.: 20.205  
Program Name: Highway Planning and Construction  
Area: Davis-Bacon Act  
Questioned Costs: \$0

### Auditee Response:

There was some confusion with the applicability of the Davis-Bacon Act as most federal grants do not require this compliance i.e., grants from the Navy. Added to the confusion was the local Department of Labor minimum wage structure that applies to H-2 workers. Such wages are slightly lower than the federal-mandated minimum wage rates and were included in contracts with subcontractors.

Oversight was acknowledged by some of our major contractors with their subcontractors and the GIAA is working with the prime contractor to resolve the discrepancies on the paid wages. The GIAA will ensure that all persons or companies charged with construction management services on federally funded projects are fully cognizant of federal requirements including compliance with the Davis-Bacon Act. Monitoring of this compliance is to be performed by the Engineering Division who has oversight of all capital improvement projects.

**GUAM INTERNATIONAL AIRPORT AUTHORITY**

Schedule of Findings and Questioned Costs  
September 30, 2003

Finding No.: 2003-9  
 CFDA No.: 20.106 and 20.205  
 Program Name: Airport Improvement Program and Highway Planning and Construction  
 Area: Procurement  
 Questioned Costs: \$356,898

Criteria:

In accordance with OMB Circular A-133 procurement requirements and the Common Rule, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Condition:

For 11 (or 44%) out of 25 transactions tested, aggregating \$340,638 of \$3,579,191 in total Program expenditures, the procurement documents did not include a written rationale for the vendor selected for the following transactions:

<u>CFDA #</u>	<u>Services Procured</u>	<u>Trans Date</u>	<u>Amount</u>
20.106	SWAT Training and Instructor fees	09-03	\$ 29,942.48
20.106	UPS Replacement	01-03	95,907.10
20.106	Disposal services	04-03	28,500.00
20.106	Perimeter fence repairs	02-03	15,323.06
20.106	Repair of damaged equipment	07-03	55,739.54
20.106	Building repairs	02-03	80,969.61
20.205	Geotechnical services	12-02	10,809.50
20.106	Security equipment	07-03	12,696.71
20.106	Digital radios	01-03	10,750.00

In one instance, the original PO# GIAA-FY02-31018 dated 6/21/02 for \$9,200 was amended five times resulting in a final amount of \$79,450.

Several payments were made to subcontractors of the Authority's consultant for which procurement information was not available:

<u>CFDA #</u>	<u>Date</u>	<u>Project Description</u>	<u>Amount</u>	
20.205	Oct-02	Runway 6R/24L - Ext. (FHWA Grant)	\$ 3,152	Engineer Consultant
20.205	Nov-02	Runway 6R/24L - Ext. (FHWA Grant)	2,468	Engineer Consultant
20.205	Jan-03	Runway 6R/24L - Ext. (FHWA Grant)	4,360	Engineer Consultant
20.205	Jan-03	Runway 6R/24L - Ext. (FHWA Grant)	3,200	Engineer Consultant
20.205	Jan-03	Runway 6R/24L - Ext. (FHWA Grant)	3,080	Engineer Consultant

- Engineer Consultant: No competitive procurement occurred for this sub-contract, nor was there evidence of actual service received under this contract.

# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Schedule of Findings and Questioned Costs September 30, 2003

Finding No.: 2003-9 Continued  
CFDA No.: 20.106 and 20.205  
Program Name: Airport Improvement Program and Highway Planning and Construction  
Area: Procurement  
Questioned Costs: \$356,898

### Cause:

There appears to be weak internal controls over ensuring compliance with OMB Circular A-133 procurement requirements.

### Effect:

The grantee is in noncompliance with OMB Circular A-133 procurement requirements. A questioned cost exists of \$356,898.

### Prior Year Finding:

This finding was listed as a fiscal year 2002 finding.

### Recommendation:

The grantee should strengthen internal controls to ensure that the significant history of each procurement transaction is maintained in accordance with OMB Circular A-133 procurement requirements. The grantee should provide the lacking procurement documents to effect resolution of this finding.

### Auditee Response:

The GIAA has since instituted requirements for three (3) quotations for any emergency procurement.

Most of the goods/services procured are security-related items following the 9/11/01 attacks under which an emergency declaration was issued. By special federal mandate, the FAA reimbursed airports for a portion of their additional security expenses incurred through the Airport Improvement Program. Due to the special circumstances, OMB-133 may not apply to these procurement actions.



# GUAM INTERNATIONAL AIRPORT AUTHORITY

## Summary of Prior Findings September 30, 2003

FY2002 Unresolved Questioned Costs:	
Finding 2002-15, Procurement (CFDA #20.106)	\$ 322,815
Finding 2002-16, Activities Allowed and Unallowed (CFDA #20.205)	368,600
Finding 2002-17, Special Tests and Provisions – Revenue Diversion (CFDA #20.106)	<u>2,489,529</u>
	<u>3,180,944</u>
Less: Resolved Questioned Costs:	
Finding 2002-15, costs were removed from the grant in FY2003	(54,465)
Finding 2002-16, costs were removed from the grant in FY2003	<u>(367,975)</u>
	<u>(422,440)</u>
Total FY2002 unresolved findings	<u>2,758,504</u>
FY2003 Unresolved Questioned Costs:	
Finding 2003-7, Special Tests and Provisions – Revenue Diversion (CFDA #20.106)	2,860,521
Finding 2003-9, Procurement (CFDA #20.106 and 20.205)	<u>356,898</u>
	<u>3,217,419</u>
Total FY2002 and FY2003 unresolved findings	\$ <u>5,975,923</u>