



Guam International Airport Authority

Supplement to Guam International Airport Authority's Fiscal Year 2002 Report on Compliance and Internal Controls

**OPA Report No. 03-08
September 2003**

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Overview

In April 2003, the Public Auditor received, from an anonymous source, a copy of a letter that the general contractor of the terminal building at Guam International Airport Authority (GIAA) had sent to the Executive Manager of the Airport. In the letter, the contractor explained a series of change orders to the terminal contract. The OPA forwarded the letter to the Airport's independent auditors and instructed the firm to assess the issues that were raised in conjunction with the audit of GIAA's financial statements. The letter was also forwarded to the U.S. Attorney's office.

Many of the findings in the Airport's Compliance Report from the independent auditors were derived from the information contained in the letter. The purpose of this supplement is to expand on some of the issues arising from the GIAA audit report, compliance report, and the letter from the general contractor.

The issues addressed in this report are organized by the following topics:

- GIAA Terminal Building General Contractor Change Orders
- Payments to a Philippines-Based Consultant
- Golf Tournament Hosted by the Airport
- Mama Bear Theme Area
- Prohibited Use of Airport Revenues
- Travel and Entertainment Expenses

GIAA Terminal Building General Contractor Change Orders

The general contractor's letter stated that the Mama Bear project (mentioned later in this report), the Birdman Rally, and the Aviation Museum/VIP Lounge were funded through change orders to the Airport's terminal construction contract. That contract was intended for improvements to the Airport's electrical and mechanical systems. The letter indicated that GIAA management named specific companies that should be employed as subcontractors for these "specialty" construction items. The execution of the change orders under the original construction contract enabled the Airport to fund the projects without conforming to Guam's procurement regulations. According to the letter, the original construction contract amount of \$79.4 million is now in excess of \$101 million, an increase of 27%.

In the letter, the contractor acknowledged that although some of the change orders were outside the scope of the original contract, the contractor accepted them anyway. Given this contractor's experience in bidding for and winning such a substantial contract, the contractor knew or should have known that these change orders were in violation of Guam's procurement regulations. We recommend that the Attorney General review the conduct of the contractor to determine if debarment procedures and other legal action are appropriate.

Liquidation of Investments with Trustees

In the Airport's Compliance Report, the auditors indicated that the construction of ramps for the Birdman Rally, the design and construction of the VIP Lounge/Governor's Statues, and the design and construction for the Mama Bear project were funded through change orders to the Terminal Building general contract.

Analysis of the Airport's Statement of Cash Flows for FY 2002 showed that \$21.6 million of its investments was liquidated during the year. Additional information provided by the Airport indicates that approximately \$15.8 million of that amount was from the Airport's Capital Improvement Fund, wherein disbursements of approximately \$4 million were for Terminal general construction. This corroborates the auditor's finding and is consistent with the information in the letter from the contractor.

Payments to Philippines-Based Consultant

The Airport incurred expenses of approximately \$165,000 related to a contract with a Philippines-based consultant named K. Gold. A proposal dated April 8, 2002 submitted by K. Gold and addressed to the GIAA Executive Manager revealed the following:

- The body of the proposal, which included the retainer fee of the consultant, was less than one page long. The Executive Manager signed the proposal accepting the offer.
- Other notations on the proposal indicated that the Executive Manager also acknowledged receipt of goods and services, although such notation was not dated.
- One of the purchase orders on file, dated April 25, 2002, indicated that a payment of \$50,000 was made the following day, April 26, which is only 17 days after the date of the proposal. The payment was for two months' retainer fee at \$25,000 per month. The closeness in time of the proposal letter, the purchase order, the payment, and the two months covered by the purchase order indicated that either an advanced payment was made or services had already been rendered prior to the formation of a contract.

- Another purchase order on file indicated an amount of \$100,000 for services from June through September 2002.
- The independent auditor's report on compliance and on internal controls for FY 2002 stated that there was no formal contract and/or terms of engagement on file for this contractor.
- The auditors also stated that there was no evidence on file indicating that services had indeed been received. This transaction is an example of management's override of internal controls that are designed and intended to assure proper procurement procedures are observed.

Golf Tournament Hosted by Airport

The Airport hosted a golf tournament in Guam in February 2002 at a cost of \$456,344. The tournament was a Korean-Japanese celebrity golf tournament aimed at promoting Guam's tourist attractions to the people of Korea and Japan. Nearly 92 per cent of the money (\$418,000) was paid to a Korea-based corporation called International Sports and Entertainment (ISE). ISE's role was to assume the full responsibility of planning, holding, operating, and managing the tournament. They were to bring in golf professionals (18 from Japan and 18 from Korea), athletes, actors, actresses, singers, business leaders, and comedians. Journalists, TV crews, and staff members were also included on the list of invitees. As part of the contract, the tournament was to receive coverage in the Japanese and Korean media. The contract was signed by the Executive Manager, the President of ISE, and the Airport's legal counsel, who approved the contract as to form. ISE also played a major role in bringing the Birdman Rally (another Airport-sponsored endeavor) to Guam. The Airport's Management Discussion and Analysis lists this tournament as an exceptional nonrecurring issue, caused by a management lapse in FY 2002.

Mama Bear Theme Area

The general contractor's letter claimed that another expense funded through change orders was the more than \$1 million spent on the "Mama Bear Theme Area" at the terminal. Based on our observations, this theme area, located in the Airport concourse, appeared to be made of a foam material at the base and was not fully functional at the time of our observance. According to the independent auditor's report, this project was substantially funded through a change order from the Terminal Building general contract, rather than the required processing through the normal competitive procurement process via a request for proposals or an invitation for bid.

Prohibited Use of Airport Revenues

The Airport's FY 2002 compliance report also pointed out that the Airport expended revenues on projects that were not directly or substantially related to airport capital/operating costs or air transportation of passengers or property.

Among the projects listed were the Birdman Rally, Aviation Park, Aviation Museum (including VIP lounge and Governor Statues), and legal expenses for which the auditors identified a total of \$2.5 million in misappropriated revenues.

The OPA contacted the Federal Aviation Administration regarding the expenditure of Airport funds for projects such as the Terra Cotta Warrior exhibit, the Birdman Rally, and Aviation Park. The FAA responded that the projects represent “a prohibited use of airport revenues.” FAA regulations state that the consequences of prohibited expenditures include withholding future grants, withholding approvals for grant modifications, withholding payments, or penalties up to three times the amount of the inappropriate expenditure.

Travel and Entertainment Expenses

In November 2002, the Office of the Public Auditor issued an investigative audit report on travel and credit card expenditures at the Guam International Airport Authority (OPA Report 02-06). The OPA found that GIAA incurred more than \$1 million in travel expenditures over the 24 months from July 1, 1999 through June 30, 2001. Further, the audit found that the Airport had authorized 320 trips with 120 different travelers.

Immediately after the release of the report, the OPA received several Hotline tips that the Airport continued to incur unnecessary and excessive travel expenditures in FY 2002 and beyond. During our review of the financial statement audit of the Guam International Airport Authority for the fiscal year ending September 30, 2002, OPA learned that Airport travel again exceeded \$1 million – this time for only 12 months. Additionally, the new Airport management advised us that travel expenditures for the first quarter of fiscal year 2003 exceeded \$500,000.

The following is a summary of some of the travel related concerns that came to our attention:

- Based on our review of the 15 months from October 1, 2001 to December 31, 2002, there were at least 487 trips taken by 194 different travelers at a cost of \$2,259,948. Of that amount \$571,000 was incurred from October to December 2002. Because the Airport may have allocated other travel expenses to other accounts, we could not confirm the completeness of the records provided to us. See **Appendix 1** for a list of the travelers with the top 15 total expenses and the corresponding number of trips and days of travel from October 2001 to December 2002.
- The 487 trips taken in the 15 months from October 1, 2001 to December 31, 2002 accrued 3,466 days of per diem – an average travel length of seven days per trip. This equates to nearly 10 years of time spent traveling over five

quarters. Based on the information gathered, we calculated the average cost of each trip at approximately \$4,641.

- The travel authorizations indicated that of the 487 trips taken, the travelers went business class for at least 173 of the trips. Of the former Executive Manager's 23 trips, 21 of them indicated business class seating. The former Board Chairperson traveled business class on seven of her nine trips. The Airport Marketing Administrator¹ also went business class on nine of her 13 trips. Of the trips taken by the 15 most frequent travelers, 64 per cent were business class. Further investigation revealed that the Airport amended its travel policy to allow the purchase of upgraded fares for long-distance travel at its discretion. The Board of Directors executed this policy amendment in the presence of legal counsel.
- Of the trips taken in the 15 months, members of the Board of Directors took 22 trips over 163 days and incurred \$129,000 in travel costs. The former Board Chairperson took nine trips for 72 days and incurred over \$57,000 in travel costs. The former Vice Chairperson took eight trips for a total 53 days and incurred over \$46,000 in travel costs.
- In September 2002, the former Executive Manager, the former Governor of Guam, the former First Lady, the former Vice Chairperson of the Board, two Special Assistants, another Board Member, a Security Police Officer, the former Governor's spokesperson (as a member of the Airport Business Development Council), and two other Airport Business Development Council Members went to Athens, Greece, to attend the "8th Annual Routes Conference." The cost of travel for the 11 people was approximately \$82,000.
- Some Non-Airport employees who traveled at Airport expense were the former Governor of Guam (four trips for 35 days totaling \$15,000), the former First Lady of Guam (three trips for 23 days totaling \$9,400), a Senator in the 26th Guam Legislature (two trips for 20 days at \$6,400), and a University of Guam Professor who traveled to Washington D.C. and Kansas City, Missouri at a cost of \$3,115.
- Among the Airport employees who traveled during the 15 months were: Accounting Technician, Administrative Officer, Administrative Services Officer, Administrative Assistant, Computer Operator I, Carpenter, Driver Operator, Electrician, Maintenance Supervisor, Personnel Specialist, Buyer I, Clerk II, Clerk III, First Lady's Staff, Messenger Clerk, Refrigeration Mechanic, Tool Clerk, Staff Assistant, and Word Processing Secretary. Travel expenses for these employees totaled \$318,574 for the 15 months.
- In September 2001, the Airport amended its travel policy to allow a communications allowance. The Airport authorized travelers "twenty-five

¹ The Marketing Administrator is the daughter of the former Chairperson of the GIAA Board.

dollars (\$25.00) per day (non-receiptable)[sic] for the usage of all communication medians on official business". This policy did not require travelers to furnish receipts as evidence of business-related communication expenses. This communication allowance gave each traveler an additional \$25 per day of travel without any accountability. The previous Airport Executive Manager initiated this policy after consultation with legal counsel. On September 28, 2001, the Board of Directors adopted a resolution granting the \$25 communication allowance.

- We also reviewed the purposes for some of the trips taken during the 15 months and the individuals taking those trips. The purposes of the trips varied considerably and included:
 - Two Driver Operators and an Administrative Officer went on a four-day trip to Pittsburgh, Pennsylvania, to attend the graduation ceremony of six GIAA firefighter recruits who had been sent by the Airport to attend the training. Their travel cost more than \$4,000 per person.
 - A Tool Clerk went to San Francisco, California to attend a seminar entitled "How to Measure and Evaluate Your Warehouse Operating Performance". The cost of the trip was \$4,654.
 - A Word Processing Secretary went on a four-day trip to Arizona to attend an event titled "Community Response to Aviation Disaster." The cost of the trip was about \$3,500.
 - Two Word-Processing Secretaries and a Clerk went on a five-day trip to New York to attend the "Project Management for Administrative Professionals Conference." The trip cost about \$17,300.
 - Two Administrative Assistants, a Messenger Clerk, two Program Coordinators, and the former GIAA Board Chairperson went to Vermont to attend the 71st NASAO (National Association of State Aviation Officials) Annual Convention and Trade Show. The Board Chair also went on to another meeting in New York during the same trip. Her travel cost totaled \$11,000. Travel for the other five employees approximated \$22,000.
 - A Clerk traveled to Manila, Philippines to meet with representatives of Philippine Airlines regarding a joint related project with GIAA and with Honeywell officials and technical services regarding Building Automation System (BAS). Travel expenses for this trip totaled \$1,600.
 - Two Clerks traveled to Seattle, Washington, for four days to attend a Basic Skills in Accounting & Finance course. Expenses totaled \$7,000.

- In July 2002, seven employees traveled to Japan “to attend the Annual Tori Ningen Contest from July 22 to July 28.” According to Internet resources, the Tori Ningen is the Japan International Birdman Rally. The trip for the seven people cost \$15,730. Although the employees commenced travel on July 22, Internet resources indicate that the event was on July 27-28.

Firefighters’ Trip to Hawaii

The OPA also received a tip through its Hotline indicating that two Assistant Fire Chiefs traveled to Hawaii with two secretaries on a trip that provided little or no benefit to the Airport.

Travel data gathered confirmed that there were four people who took the same trip to Hawaii in October 2002. The Airport’s Acting Fire Chief, Assistant Fire Chief, a Clerk, and an Administrative Assistant traveled for 10 days “to discuss ARFF (Airport Rescue and Fire Fighting) and other issues with officials in Hawaii.” The trip cost \$16,600.

The stated purpose of the group trip was two-fold: first, to attend meetings with officials from the Honolulu airport from October 17-19, 2002; and second to fly to Maui in preparation for firefighter training from October 21-24.

We made a series of phone calls to officials at the Honolulu airport with whom the travelers indicated they met. One contacted official indicated that he did not meet with the GIAA employees. The other official indicated he took the GIAA employees on a tour that lasted approximately one hour.

We also contacted the Fire Chief of the Maui airport where the firefighter training took place. The Chief advised us that it is customary for a Fire Chief to make a pre-deployment trip in advance of a firefighter certification exercise. The Chief also commented that the Airport Acting Fire Chief was fully engaged throughout the certification program.

In June 2003, we examined Airport travel documentation to determine if a travel report had been filed by any of the travelers for this trip. We were advised that only two travel reports had been submitted since October 1, 2001. According to the GIAA Travel Policy, a trip report is required within ten days of the conclusion of a trip.

A few days after we made our request, we received a series of trip reports including three for this trip. The reports submitted by the Clerk and the Administrative Assistant were nearly identical (an indication that one of the reports was copied) and were undated. The report stated the following purposes for the Maui trip:

- 1) "I proceeded to Maui to help arrange for the hotel accommodation of the ARFF personnel. I coordinated with the vendor for the purchase of supply of fuel for fire control training, and other administrative requirements of ARFF personnel who will undergo Live Fire Burn at the Maui Training facility."
- 2) "The undersigned's actual presence on site, enabled the Authority to further confirm and verify the accuracy and reliability of the Live Fire training exercises undertaken by the GIAA ARFF firefighting personnel as well as the relevance and effectiveness of the training curricula applied in their training."

These purposes do not appear to indicate any objective that could not have been achieved by the staff members if they had remained in Guam. The evidence gathered suggests that the portion of the itinerary of the Acting Fire Chief and Assistant Fire Chief in Honolulu from the night of October 15 through October 20 was not justified. The evidence gathered does indicate the portion of the itinerary of the Acting Fire Chief and Assistant Fire Chief in Maui from October 21 through October 24 was reasonably justified. The evidence suggests that the entire trip taken by the Clerk and the Administrative Assistant was not justified.

Travel Expenses of New Management and Board

In order to ascertain whether the travel practices of the prior management continue to exist under the new management, we also gathered travel authorizations from January 2003 to May 2003. We found that ten trips were taken during that period for a total of 33 days for a total amount of \$14,451. We did not note any trips that involved business class seating. The Executive Manager took one of those ten trips. The sharp decrease in trips and total travel expenditures for the first five months of 2003 is in dramatic contrast to the travel practices under the Airport's prior management.

Conclusions and Recommendations on Travel Issues

Government Auditing Standards state, "abuse occurs when the conduct of a government program or entity falls far short of behavior that is expected to be reasonable and necessary business practices by a prudent person." The GIAA travel policy requires that "all persons authorized by the Authority to travel shall exercise the same care in incurring expenses that a prudent person would if traveling on their own personal business." We have concluded that the amount and nature of travel expenses incurred by management and staff of the Airport as mentioned in this report fell far short of these prudent person standards and therefore met the definition of abuse and was a violation of the GIAA travel policy.

In addition to the recommendations contained in our report of November 2002, we recommend that the Airport's Board and management:

1. Amend the Travel Policy of the Airport and discontinue the \$25.00 per day communication allowance. Additionally, receipts should be required whenever public funds are expended, including communications expenses.
2. Amend the Travel Policy of the Airport and discontinue the discretionary allowance of upgraded fares for long-distance travel. In the event that the travel of an individual who is deemed crucial to the mission of the Airport finds economy class seating a dissuading factor to travel, the Airport shall document such a situation and justify the reason for allowing an upgraded airfare.
3. Strictly enforce the requirement that all employees submit trip reports within ten days after the conclusion of travel, as required in the Airport's Travel Policy. Such reports, at a minimum, should include the dates of travel, destination(s), names of other persons traveling for the same purpose (if any), the duration of the conference, meeting, seminar, training, or other events as stated for the purpose of travel, evidence of attendance at the events, and a summary describing the benefits the Airport derived as a result of the trip taken.

Recommendation to the Attorney General

We recommend the Attorney General review the conduct of the contractor to determine if debarment procedures and other legal action are appropriate.

Management Response

This report was provided to the management of the Guam International Airport Authority management for review and feedback. GIAA concurred with the findings in the report. See Appendix 2 for their complete response.



Doris Flores Brooks, CPA, CGFM
Public Auditor

APPENDIX 1: Table of travelers with 15 highest total travel expenses at the Guam International Airport Authority for the 15 month period October 1, 2001 to December 31, 2002.

Traveler	Number of Trips	Days of Travel	Total Travel Expenses	Average Per Trip
Chief Planner	11	116	\$ 82,988.19	\$ 7,544.38
Executive Manager	23	137	\$ 81,685.97	\$ 3,551.56
Airport Marketing Administrator ²	13	110	\$ 79,235.31	\$ 6,095.02
Airport Operations Superintendent	15	95	\$ 73,326.82	\$ 4,888.45
Deputy Executive Manager, Acting	12	63	\$ 59,293.88	\$ 4,941.16
Chief of Airport Police	11	64	\$ 58,570.88	\$ 5,324.63
Chairperson, Board of Directors	9	72	\$ 57,188.72	\$ 6,354.30
Data Processing Manager	15	84	\$ 53,129.63	\$ 3,541.98
Administrative Services Officer	6	53	\$ 50,184.23	\$ 8,364.04
Vice Chairman	8	53	\$ 46,088.24	\$ 5,761.03
Chief Engineer	9	75	\$ 42,691.70	\$ 4,743.52
Engineer III	6	43	\$ 42,520.32	\$ 7,086.72
Airport Police Supervisor	10	48	\$ 34,801.86	\$ 3,480.19
Assistant Controller, Acting	4	26	\$ 32,588.27	\$ 8,147.07
Supply Management Administrator	3	29	\$ 29,022.96	\$ 9,674.32
Other 179 Travelers	332	2398	\$ 1,436,631.50	\$ 4,327.20
TOTAL	487	3466	\$ 2,259,948.48	\$ 4,640.55

Note: Data taken from Travel Authorizations provided to the OPA by Airport accounting staff.

² The Marketing Administrator is the daughter of the former Chairperson of the GIAA Board.

APPENDIX 2: Guam International Airport Authority Management Response



A. B. WON PAT

ATURIDAT PUETTON BATKON AIREN GUAHAN ENTENASIONAT
GUAM INTERNATIONAL AIRPORT AUTHORITY

September 12, 2003

Received by Office of the
Public Auditor

9/15/03

10:25AM

Ms. Doris Flores Brooks
Public Auditor
Office of the Public Auditor
Suite 401, Pacific News Building
238 Archbishop Flores Street
Hagatna, Guam 96910

Dear Doris:

Thank you for the extension requested by the GIAA Controller for our response to your draft Supplemental Report to GIAA's Fiscal Year 2002 Report on Compliance and on Internal Controls.

We acknowledge that the infractions made on internal controls and procurement listed in both the draft Supplemental Report received August 27, 2003 and the Investigative Report on Travel and Credit Card Use July 1, 1999 through June 20, 2001 dated November 2002 may have occurred in the past fiscal years. However, we would like to assure you that soon after the official appointments of the new GIAA Board of Directors and management, many of the recommendations you made in these reports have already been implemented. Many of our Board's directives mandated policy changes to correct the underlying weaknesses noted in your reports, including:

- Abolishment of GIAA issued credit cards
- Requirement for the approval by the GIAA Board for all travel requests and travel authorizations
- Discontinuance of the \$25.00 per day communication allowance; rescission of the 50% payment of the authorized per diem rate for meals and having hotel expenses paid by GIAA; and, no upgraded fares for the traveler
- Enforcement of the 10-day rule for the submission of trip and travel expense reports
- Reinstatement of existing policies and procedures for proper procurement and checks and balances between the administrative, accounting and procurement divisions
- Board review and approval of contracts, leases and other purchases over \$50,000
- Establishment of GIAA Board Standing Committees for Budget & Finance, Tenant Relations, Personnel, Marketing & Travel, Expansion & Construction, and Special Projects
- The Expansion/Construction Standing Committee has proposed policies to ensure that change orders are germane to the original scope of the project
- Board participation in Request For Proposal (RFP) evaluations
- Attendance of an FAA Compliance Workshop by the GIAA Board Chairman, a Board

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Director/Chairman of GIAA Board Standing Committee on Expansion and Construction, the GIAA Executive Manager, and an Engineering Supervisor in July, 2003 which included guidance on the proper use of airport revenues

- Scheduling of procurement training for GIAA management and staff
- Realigned the reporting relationship of the Controller to the Board

Thank you for your reports and continuing efforts to bring to our attention those areas for improvement. We agree, individually and in whole, the GIAA Board, management and staff remain accountable and transparent to the public.

Sincerely,


FRANK F. BIAS
Chairman

cc: Board of Directors
Executive Manager
Controller