

Compliance and Internal Control

Guam International Airport Authority

Year ended September 30, 2005

Guam International Airport Authority
Reports on Compliance and Internal Control
Year ended September 30, 2005

Contents

| | |
|---|----|
| Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on the Audit Performed in accordance with <i>Government Auditing Standards</i> | 1 |
| 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..... | 3 |
| Schedule of Expenditures of Federal Awards..... | 5 |
| Notes to the Schedule of Expenditures of Federal Awards | 7 |
| Schedule of Findings and Questioned Costs..... | 9 |
| Schedule of Prior Findings | 18 |

Independent Auditors' Report on Internal Control Over
Financial Reporting and Compliance and Other Matters
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 (the "Authority"), as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. 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

In planning and performing our audit, we considered the Authority'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 the Authority'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 2005-1 and 2005-2.

A material weakness is a reportable 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 caused by error or fraud 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 do not consider the reportable conditions described above to be material weaknesses.

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 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. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Directors and management of the Authority, the Office of the Public Auditor, 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.

Ernst + Young LLP

December 2, 2005

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 (the "Authority") 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, 2005. The Authority's major federal programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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.

As described in finding numbers 2005-3 through 2005-5 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with the requirements regarding cash management, the Davis-Bacon Act and reporting requirements applicable to its Airport Improvement Program (CFDA No. 20.106) and Highway Planning and Construction Program (CFDA No. 20.205). Compliance with such requirement is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority 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, 2005.

Internal Control Over Compliance

The management of the Authority 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 the Authority'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 the Authority'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 2005-3 through 2005-5.

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 caused by error or fraud 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, we do not consider the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. 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 the Authority. 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 the Authority, the Office of the Public Auditor, 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.

Ernst & Young LLP

December 2, 2005

GUAM INTERNATIONAL AIRPORT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

| Federal Program/Project Title | CFDA Number | Project No. | Program or Award Amount | Receivables from Grantor at 10/1/04 | Cash Receipts FY 2005 | Allowable Expenditures FY 2005 | Receivable from Grantor at 9/30/05 |
|--|----------------|--------------|-------------------------------|--|-----------------------------|--------------------------------------|---|
| U.S. Department of Transportation | | | | | | | |
| Direct Programs: | | | | | | | |
| Airport Improvement Program: | | | | | | | |
| Security Access System | 20.106 | 3-66-0001-09 | \$ 651,165 | \$ --- | \$ --- | \$ --- | \$ --- |
| Rehabilitate Runway 6R/2L | 20.106 | 3-66-0001-19 | 4,608,018 | 22,445 | --- | (22,445) | --- |
| Construct Parallel Taxiway | 20.106 | 3-66-0001-21 | 2,386,699 | 31,046 | 1,437,881 | 2,003,411 | 596,576 |
| Construct Parallel Taxiway | 20.106 | 3-66-0001-22 | 425,976 | 5,156 | 28,731 | 32,845 | 9,270 |
| Conduct Noise Compatibility | 20.106 | 3-66-0001-23 | 450,000 | --- | --- | --- | --- |
| Construct Parallel Taxiway | 20.106 | 3-66-0001-24 | 2,202,325 | 21,909 | 122,106 | 139,593 | 39,396 |
| Construct Parallel Taxiway | 20.106 | 3-66-0001-25 | 328,400 | 3,945 | 21,627 | 24,634 | 6,952 |
| Construct Loop Taxiway | 20.106 | 3-66-0001-26 | 1,760,013 | 16,911 | 93,532 | 106,748 | 30,127 |
| Rehabilitate Runway 6L/24R | 20.106 | 3-66-0001-27 | 850,000 | --- | --- | --- | --- |
| Construct Loop Taxiway | 20.106 | 3-66-0001-28 | 5,958,210 | 79,045 | 440,539 | 503,630 | 142,136 |
| Extend & Rehab Runway 6L/24R | 20.106 | 3-66-0001-29 | 4,590,000 | --- | 712 | 712 | --- |
| Update Airport Master Plan Study | 20.106 | 3-66-0001-30 | 540,000 | --- | --- | --- | --- |
| Acquire Land/Relocation | 20.106 | 3-66-0001-31 | 1,296,226 | 4,109 | 4,109 | 33,037 | 33,037 |
| Acquire ARFF Vehicles | 20.106 | 3-66-0001-32 | 2,366,608 | 1,023,984 | 1,090,522 | 66,538 | --- |
| Compensation of Direct Cost | | | | | | | |
| Associated with New & Revised | | | | | | | |
| Security Requirements | 20.106 | 3-66-0001-33 | 2,130,676 | (749,053) | (749,053) | --- | --- |
| Compensation of Direct Cost | | | | | | | |
| Associated with New & Revised | | | | | | | |
| Security Requirements | 20.106 | 3-66-0001-34 | 2,182,341 | --- | --- | --- | --- |
| Security Enhancements-Phase 1 | 20.106 | 3-66-0001-35 | 5,454,744 | 344,346 | 1,284,346 | 1,242,235 | 302,235 |
| Rehabilitate TB & ARFF Bldg.; Install | | | | | | | |
| Security Fencing; Repair SACS & | | | | | | | |
| Misc. Nav Aids (typhoon damages) | 20.106 | 3-66-0001-36 | 3,700,000 | 74,471 | 306,209 | 274,083 | 42,345 |
| Improve Airport Utility Infrastructure | | | | | | | |
| (Water System) - Phase 1 | 20.106 | 3-66-0001-37 | 4,187,450 | 3,497 | 1,276,528 | 1,295,495 | 22,464 |
| Replace Airfield Signage & 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 | 472,946 | 2,528,015 | 2,261,583 | 206,514 |
| Rehabilitate Rwy 6L/24R & Taxiway; | | | | | | | |
| Repair Airfield Lighting Vault & | | | | | | | |
| Terminal Bldg (earthquake damages) | 20.106 | 3-66-0001-39 | 2,095,676 | 958,816 | 1,034,480 | 75,664 | --- |
| Improve Airport Utility Infrastructure | | | | | | | |
| (Water System) - Phase 2 | 20.106 | 3-66-0001-40 | 2,155,152 | --- | 185,947 | 269,022 | 83,075 |
| Conduct Noise Compatibility | | | | | | | |
| Plan Study - Phase 1 | 20.106 | 3-66-0001-41 | 119,354 | 41,765 | 92,861 | 72,985 | 21,889 |
| Acquire Land for Noise Compatibility | 20.106 | 3-66-0001-42 | 2,000,000 | 125,423 | 769,005 | 781,851 | 138,269 |
| Improve Airport Utility Infrastructure | | | | | | | |
| (Water System) - Phase 2 | 20.106 | 3-66-0001-43 | 1,400,000 | --- | --- | --- | --- |
| Conduct Airport Security/ | | | | | | | |
| Perimeter Road | 20.106 | 3-66-0001-44 | 7,703,767 | --- | --- | 15,438 | 15,438 |
| Acquire Passenger Lift Device | 20.106 | 3-66-0001-45 | 100,000 | --- | --- | 10,542 | 10,542 |
| Conduct General Aviation Site | | | | | | | |
| Selection Study | 20.106 | 3-66-0001-46 | 250,000 | --- | --- | 3,146 | 3,146 |
| Improve TB (Seismic Zone 4 Upgrades, | | | | | | | |
| Outbound Baggage System Imp., | | | | | | | |
| Design of a Sterile Arrival Corridor) | 20.106 | 3-66-0001-47 | 3,867,500 | --- | --- | 240,984 | 240,984 |
| Noise Mitigation Measures for | | | | | | | |
| Residences w/in 65-69 DNL - Phase 1 | 20.106 | 3-66-0001-48 | 1,900,000 | --- | --- | 9,512 | 9,512 |
| Acquire Runway Sweeper, Rubber | | | | | | | |
| Removal Eqpt, Friction Measuring Eqpt. | 20.106 | 3-66-0001-49 | 375,120 | --- | --- | --- | --- |
| Improve Airport Utility Infrastructure | | | | | | | |
| (Water System) - Phase 4 | 20.106 | 3-66-0001-50 | 1,757,000 | --- | --- | --- | --- |
| Misc. Airport Improvements | | | | | | | |
| (Demolish Former Naval Housing Units) | 20.106 | 3-66-0001-51 | 2,282,589 | --- | --- | --- | --- |
| Total Airport Improvement Program, carried forward | | | 88,975,009 | 2,480,761 | 9,968,097 | 9,441,243 | 1,953,907 |

GUAM INTERNATIONAL AIRPORT AUTHORITY
Schedule of Expenditures of Federal Awards, continued
Year ended September 30, 2005

| Federal Program/Project Title | CFDA Number | Project No. | Program or Award Amount | Receivables from Grantor at 10/1/04 | Cash Receipts FY 2005 | Allowable Expenditures FY 2005 | Receivable from Grantor at 9/30/05 |
|--|----------------|---------------|-------------------------------|--|-----------------------------|--------------------------------------|---|
| U.S. Department of Transportation | | | | | | | |
| Direct Programs: | | | | | | | |
| Total Airport Improvement Program, brought forward | | | 88,975,009 | 2,480,761 | 9,968,097 | 9,441,243 | 1,953,907 |
| Extend Runway 6R/24L - Phase 1 | 20.205 | GU-AP66 (001) | 5,743,624 | 866,352 | 866,352 | --- | --- |
| Extend Runway 6R/24L - Phase 2 | 20.205 | GU-AP66 (002) | 10,200,336 | 931,722 | 7,329,779 | 6,986,900 | 588,843 |
| U.S. Department of Transportation Total | | | 104,918,969 | 4,278,835 | 18,164,228 | 16,428,143 | 2,542,750 |
| Economic Development Administration: | | | | | | | |
| Water & Sewer Line Extensions at Tiyan | 11.307 | 07-49-03910 | 1,100,000 | --- | --- | --- | --- |
| Waterline to Loop Water Systems at Tiyan | 11.307 | 07-49-04841 | 469,000 | --- | 436,748 | 436,748 | --- |
| Economic Development Administration Total | | | 1,569,000 | --- | 436,748 | 436,748 | --- |
| Federal Emergency Management Agency: Pass-Through Government of Guam: | | | | | | | |
| Typhoon Paka | 83.544 | | 1,237,090 | 181,362 | 179,995 | --- | 1,367 |
| Typhoon Pongsona | | | --- | (111,604) | (111,604) | --- | --- |
| FEMA total | | | 1,237,090 | 69,758 | 68,391 | --- | 1,367 |
| Total Federal Awards Expended | | | \$ 107,725,059 | \$ 4,348,593 | \$ 18,669,367 | \$ 16,864,891 | \$ 2,544,117 |

Guam International Airport Authority

Notes to the Schedule of Expenditures of Federal Awards

September 30, 2005

1. Source of Funding

The Authority'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. The Authority's Economic Development Administration program is funded through grants from the Department of Commerce under CFDA number 11.307.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

For the purpose 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 CFDA. Cash receipts do not include matching funds from the Authority. All expenses and capital outlays which represent the federal share of each project are reported as expenditures.

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

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

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 for a certain phase of the project.

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, 2005. 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 a parallel taxiway. Qualifying expenditures are allocated among these six grants.

Guam International Airport Authority

Notes to the Schedule of Expenditures of Federal Awards, continued

4. Federal Emergency Management Agency (FEMA)

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

Guam International Airport Authority
Schedule of Findings and Questioned Costs

September 30, 2005

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, none 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, none of which were 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 Authority’s major programs are:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
|---|--------------------|
| Airport Improvement Program | 20.106 |
| Highway Planning and Construction Program | 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 Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Part II – Financial Statement Findings Section

| <u>Finding Number</u> | <u>Finding</u> |
|-----------------------|-------------------------------|
| 2005 - 1 | Bond Indenture |
| 2005 - 2 | Procurement – Small Purchases |

Part III – Federal Award Findings and Questioned Cost Section

| <u>Finding Number</u> | <u>CFDA Number</u> | <u>Finding</u> | <u>Questioned Costs</u> |
|-----------------------|--------------------|------------------------|-------------------------|
| 2005 – 3 | 20.205 | Cash Management | \$ --- |
| 2005 – 4 | 20.106 & 20.205 | Davis-Bacon Act | \$ --- |
| 2005 – 5 | 20.106 | Reporting Requirements | \$ --- |

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number 2005 – 1 **Bond Indenture**

Criteria:

Article V, Section 5.02, of the 2003 Bond Indenture establishes the allocation of revenues. Funds are to be transferred by the 5th of the month in the amount necessary to increase the balances of the Operations and Maintenance (O&M) fund and the Bond Debt Service Funds (principal and interest) to the required amount.

Condition:

Based on our review of the January to November 2005 revenue account statements, fund transfers were not made in a timely manner as noted below:

| Month | Date Remitted | Days Late |
|----------------|--|--|
| January 2005 | 01/10/05 for O&M, 01/20/05 for principal and interest | 3 business days for O&M, 11 business days for principal and interest. |
| February 2005 | 02/08/05 | 1 business day |
| March 2005 | 03/14/05 | 7 business days |
| July 2005 | 07/06/05 | 1 business day |
| September 2005 | 09/06/05 | 1 business day |

Cause:

The cause of this condition is unknown.

Effect:

The aforementioned fund transfers were not made in accordance with the requirements of Article V, Section 5.02 of the 2003 Bond Indenture.

Recommendation:

We recommend the Authority ensure that funds are transferred, in a timely manner, in accordance with the requirements of the Bond Indenture.

Auditee Response:

In March 2005, the Authority received a response from the trustee regarding the late allocation of funds. It was noted that for the months of January, February and March 2005, the Revenue Fund Account does not have sufficient funds to meet the allocation required every 5th of the month. On July and September 2005, the trustee failed to transfer funds on the 5th although funds were available noting however, that September 5th fell on a holiday.

With due diligence, the Authority will take the extra steps and remind/advise the trustee to make fund transfers sooner if the 5th of the month falls on a weekend or a holiday.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number 2005 – 2 **Procurement - Small Purchases**

Criteria:

The Authority should comply with the Small Purchases requirements of the Authority's Standard Operation Procedures (SOP) and the following sections of the Guam Administrative Rules and Regulations 2-GAR Administration Div. 4 – Procurement Regulations (GAR).

- Section 3111(b)(5) – Division of Requirements

Condition:

Of the 11 purchase orders (POs) selected for testing, the following did not comply with certain provisions of the GAR and the Authority's SOPs:

| PO Number | Vendor Number | PO Amount | Invoice Number | Invoice Date | Invoice Amount | Description | Finding(s) |
|------------------|----------------------|------------------|----------------------------|----------------------------------|-------------------------------|-------------------------|-------------------|
| 51348 | 4442 | \$14,890 | 133690 133994 134363 | 02/01/05 02/15/05 03/01/05 | \$1,800 \$2,000 \$1,700 | Liquefied Petroleum Gas | 1 and 2 |

Our findings are as follows:

1. The PO was dated 3/15/05 and acknowledged by the vendor on 3/17/05. However on 5/03/05, the vendor sent a letter notifying the Authority of a unit price increase of \$0.40, thus increasing the total PO amount to \$17,868, which may have required the Authority to undergo Competitive Sealed Bidding.
2. The Authority was invoiced prior to the PO date of 3/15/05.

Cause:

The cause of this condition is unknown.

Effect:

The Authority is not in compliance with the GAR and the Authority's SOP.

Recommendation:

Management should strengthen internal controls to ensure compliance with the GAR and the Authority's SOP.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number 2005 – 2, continued **Procurement - Small Purchases**

Auditee Response:

PO51348 was issued to South Pacific Petroleum in the amount of \$14,890 to purchase 7,445 gallons of LP gas to be delivered bi-weekly at the rate of \$2.00 per gallon. While fuel deliveries are scheduled on a bi-weekly basis, deliveries are based on fuel consumption and remaining capacity of the LPG fuel tank. Although the unit price increased to \$0.40 per gallon in May 2005, the total consumption or purchase did not exceed the total amount of the purchase order issued.

The PO was issued in March 2005 at the unit rate quoted by the vendor. At the given unit rate, the Small Purchase procurement authority was used. As of April 26, 2005, the Authority had purchased total of 6,275 gallons of gas under this purchase order and should have a balance of 1,170 gallons. As a result of the increase of the unit price in May 2005, the Authority reduced the total gallons purchased under this purchase order. As indicated, the initial order was 7,445 gallons of gas. The total deliveries/purchases charged under this purchase order amounted to 6,875 gallons.

The Authority has established Standard Operating Procedures, effective October 1, 2005 which requires end-users to monitor and obtain purchase order balances prior to any transactions. To address fuel price fluctuations and the Authority's annual estimated costs of fuel requirements exceeding \$15,000, the Authority will procure the services consistent with Guam Procurement Regulations.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number: 2005 – 3
CFDA No: 20.205
Program Name: Highway Planning and Construction
Area: Cash Management
Questioned Costs: \$ -0-

Criteria:

In accordance with the requirements of OMB Circular A-133, “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”.

Condition:

The Authority requested for the following reimbursements prior to making the disbursements:

| Reimbursement Request Date | Check Date | Check Number | Amount Disbursed | Vendor Number | Reimbursement Receipt Date |
|----------------------------|------------|--------------|------------------|---------------|----------------------------|
| 3/28/05 | 4/06/05 | 155 | \$1,009,562 | 4052 | 5/03/05 |
| 5/19/05 | 5/26/05 | 181 | \$2,195,909 | 4052 | 8/17/05 |

Cause:

The cause of this condition is unknown.

Effect:

Although grant reimbursements were received after the program costs were paid, reimbursements were requested by the Authority before the program costs were paid. As such, the Authority did not comply with the requirements of OMB Circular A-133.

Recommendation:

The Authority should ensure that it complies with the cash management requirements of OMB Circular A-133.

Auditee Response:

In an effort to reduce the time elapsing between the disbursements and actual receipt of federal funds, the Authority tried to prepare the request for reimbursement based on accrued project costs. The intention is not to draw down funds in advance of needs therefore is consistent with the goals of the Cash Management Information Act of 1990, but rather give the Authority the ability to pay their contractors in a timely manner. As noted, program costs were paid way before federal funds were received which undoubtedly show that federal funds are not utilized for purpose other than what was intended for.

However as recommended, subsequent request for reimbursements shall be prepared after program cost is paid.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number: 2005 – 4
CFDA No: 20.106 and 20.205
Program Name: Airport Improvement Program and Highway Planning and Construction
Area: Davis-Bacon Act
Questioned Costs: \$0

Criteria:

The Davis-Bacon Act requires that construction projects over \$2,000 need to include a provision for compliance with prevailing wage requirements. It 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 the acceptance of the wage determination. Under this Act, Contractors and Sub-contractors are required to pay wages to laborers and mechanics at a rate not less than minimum wages specified in the wage determination established by the Department of Labor.

Condition:

We noted the following based on our review of a sample of the certified payrolls submitted by various contractors and sub-contractors:

1. Differences between the actual hourly wage rates paid versus the prevailing wage rate:

| Vendor Number | Project Number | Pay Period | Position | Actual Wage Rate | Prevailing Wage Rate | Actual Rate (Over) Under Prevailing Rate |
|---------------------|----------------|------------|--------------|------------------|----------------------|--|
| 4843 | GIAA-FY03-33-1 | 12/4/04 | Painter | \$12.00 | \$13.03 | \$1.03 |
| 4843 | GIAA-FY03-33-1 | 12/4/04 | Laborer | \$7.00 | \$7.88 | \$0.88 |
| 4816 | GIAA-FY03-17-5 | 3/05/05 | Laborer | \$7.88 | \$8.50 | \$0.62 |
| 4843 | GIAA-FY03-31-5 | 3/26/05 | Laborer | \$8.00 | \$8.50 | \$0.50 |
| 4052 Subcontractors | GIAA-FY98-08-2 | 8/20/05 | Truck Driver | \$12.99 | \$13.80 | \$0.81 |
| 4052 Subcontractors | GIAA-FY98-08-2 | 8/20/05 | Operator | \$12.81 | \$13.32 | \$0.51 |
| 4052 Subcontractors | GIAA-FY98-08-2 | 8/20/05 | Operator | \$13.00 | \$13.32 | \$0.32 |
| 4052 Subcontractors | GIAA-FY98-08-2 | 8/20/05 | Operator | \$12.99 | \$13.32 | \$0.33 |
| 4052 Subcontractors | GIAA-FY98-08-2 | 8/20/05 | Laborer | \$7.88 | \$8.50 | \$0.62 |

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number: 2005 – 4, continued
CFDA No: 20.106 and 20.205
Program Name: Airport Improvement Program and Highway Planning and Construction
Area: Davis-Bacon Act
Questioned Costs: \$ -0-

Condition:

2. A copy of the current prevailing wage rate determination was not included in the bid documents for Project No. GIAA-FY03-31-5.
3. The Subcontractors certified payroll submissions did not contain the employees' position title for Project No GIAA-FY2K-13-2.

Cause:

Although the Authority performs random investigations of its Contractors for compliance with the Davis-Bacon Act the certified payrolls selected above may not have been selected for investigation.

Effect:

The specific Contractors/Subcontractors selected for testing are not in compliance with the Davis-Bacon Act.

Recommendation:

We recommend the Authority specifically select the contractors/subcontractors identified above for further investigation.

Auditee Response:

The Authority has directed the construction managers assigned to the referenced projects to investigate the noted wage discrepancies and provide a report. For those projects that are active, the Authority has called for a complete review of certified payrolls and an expanded random interview process.

For other federally funded projects, the construction managers have been requested to place greater emphasis on contractor compliance to the Davis-Bacon Act. For subsequent projects, the Davis-Bacon Act and other requirements will be better reinforced in the bid documents as well as the pre-bid and pre-construction conferences.

Guam International Airport Authority

Schedule of Findings and Questioned Costs, continued

September 30, 2005

Finding Number: 2005 – 5
CFDA No: 20.106
Program Name: Airport Improvement Program
Area: Reporting Requirements
Questioned Costs: \$ -0-

Criteria:

Title 49 Part 18 of the Code of Federal Regulations states “for grants paid by letter of credit, Treasury Check advances or electronic transfer of funds, the grantee will submit the Standard Form 272 “Federal Cash Transactions Report” no later than 15 working days following the end of each quarter”.

Condition:

Documentation reflecting the submittal dated for the 2nd quarter (March 31, 2005) Form SF-272 was not available for our review. However, we noted that the Report was dated 6 working days after the 15 day period.

Cause:

The cause of this condition is unknown.

Effect:

Form SF-272 for the 2nd quarter was not submittal in a timely manner in accordance with the requirements of Title 49 Part 18.

Recommendation:

We recommend the Authority file Form SF-272 on a timely basis as required by Title 49 Part 18.

Auditee Response:

The Program Guidance Letter 05-2 dated April 29, 2005 issued by the Federal Aviation Authority which pertains to Letter of Credit Project Payments reiterated several requirements to include financial reporting. Upon receipt of the guidance letter, the Authority has ensured that it adhered to the timely submission of SF-272, Federal Cash Transaction Report. Henceforth, the SF-272 reports were submitted within 15 days after the end of the report period commencing on the quarter ending June 30, 2005.

Guam International Airport Authority

Summary of Prior Findings

September 30, 2005

FY2002 Unresolved Questioned Costs:

| | |
|--|------------------|
| Finding 2002-15, Procurement (CFDA #20.106) | \$ 268,350 |
| Finding 2002-16, Activities Allowed and Unallowed (CFDA #20.205) | 625 |
| Finding 2002-17, Special Tests and Provisions - Revenue Diversion (CFDA #20.106) | <u>2,489,529</u> |
| | <u>2,758,504</u> |

Less: Resolved Questioned Costs:

| | |
|---------------------------------|--------------------|
| Finding 2002-15, FAA resolution | (268,350) |
| Finding 2002-16, FAA resolution | (625) |
| Finding 2002-17, FAA resolution | <u>(2,489,529)</u> |
| | <u>(2,758,504)</u> |

Total FY2002 unresolved findings

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> |

Less: Resolved Questioned Costs:

| | |
|--------------------------------|--------------------|
| Finding 2003-7, FAA resolution | (2,860,521) |
| Finding 2003-9, FAA resolution | <u>(356,898)</u> |
| | <u>(3,217,419)</u> |

Total FY2003 unresolved findings

FY2004 Unresolved Questioned Costs:

| | |
|--|----------------|
| Finding 2004-5, Procurement (CFDA #83.544) | <u>153,558</u> |
|--|----------------|

Less: Resolved Questioned Costs:

| | |
|--------------------------------|-------------------|
| Finding 2004-5, FAA resolution | <u>(153,558)</u> |
|--------------------------------|-------------------|

Total FY2004 unresolved findings

Total unresolved findings

\$ ---

As discussed, in Note 9 to the audited financial statements total unresolved questioned costs as of September 30, 2004 totaled \$718,260. In addition, as of September 30, 2004, the FAA requested that the Authority seek reimbursement of \$564,702 of this amount from the Government of Guam. As further discussed, in Note 9, on September 30, 2005 the Authority received a parcel of land with an appraised value of \$2,530,000 from the Government of Guam. This represented reimbursement to the Authority for the \$564,702 in questioned costs, which is reflected as a component of Finding 2002-17 above.

In addition, during 2005, the FAA resolved Finding 2004-5 by notifying the Authority that the actions taken by the Authority after super typhoon Pongsona were “prudent and diligent based on public exigency”.