



OFFICE OF THE PUBLIC AUDITOR

**GIAA Incurs Record Loss of \$9.8 Million in FY 2002**

According to the audited financial statements for the fiscal year ending September 30, 2002, the Guam International Airport Authority had a record loss of \$9.8 million and experienced the fourth consecutive year of net losses. The audit, conducted by Deloitte and Touche, revealed that the Airport barely made its debt service coverage ratio of 1.25 as required by its bond covenants. The prior year's coverage was 1.41.

The Airport's \$9.8 million loss can, among other things, be attributed to non-operating expenses of \$11.3 million, compared to the prior year amount of \$5.3 million. These expenses included such items as Tiyan Reuse Authority payroll of \$1 million for 22 employees, abandoned projects of \$1.7 million (for the Birdman Rally, Aviation Park, and the Governor's Statues), one-time promotional expenses of \$628,000 for the Birdman Rally, Aviation security of \$1.8 million, typhoon related expenses of \$1.4 million and, earthquake-related expenses of \$171,000 also added to increased costs. The airport also had \$ 1.1 million in legal fees for FY 2002.

In the Airport's Management Discussion and Analysis (MD&A), which is required information in their financial statements, they cite a management lapse in FY 2002 that caused extraordinarily high costs to be incurred. The following is an excerpt of their MD&A that outlines those costs:

Statues and Aviation Museum Plan	\$3,185,000
Travel unrelated to airport certification	\$1,530,375
Birdman Rally	\$1,660,555
Chinese Art Exhibition	\$863,323
Glory Link (Consultant)	\$227,950
China Link (Consultant)	\$82,479
Golf Tournament	\$456,343
<b>TOTAL</b>	<b>\$8,171,005</b>

\*\*Another expense uncovered was the Mama Bear Theme Park project. This project cost the Airport \$1,049,307, but is not listed above because it occurred in FY 2001.

In the auditor's draft report on the Airport's compliance and internal controls, there were 19 findings for fiscal year 2002. Interestingly, this is a stark contrast to the prior year, in which the auditors did not note any reportable conditions. Several of the independent auditor's major findings stem from information provided by the Public Auditor. Among the findings that the auditors noted were the following:

- Untimely bank reconciliations

- Capitalization of \$2.9 million in costs that should have been expensed
- Interest-free financing of generator purchases for employees after Typhoon Chata'an totaling \$500,000
- Change orders to the terminal building contract to include costs related to the Birdman Rally, the VIP Lounge/Governor Statues, and the Mama Bear project. These totaled \$7.1 million.
- Management override of controls, occasioning payments to the Executive Manager without adequate supporting documentation.
- Execution of contracts without the approval of legal counsel and evidence of competitive procurement.
- Overspending in various expense categories beyond budgeted amounts or expending funds for which there were no budgets for.
- Expending Airport Revenues on projects that are not directly or substantially related to capital/operating costs or to actual air transportation of passengers or property.

The new Board of Directors and Airport Management Team informed the OPA that corrective action has already taken place since they took office in January 2003. However the actions of prior management will nonetheless have an effect on the Airport's performance for the first quarter of FY 2003.