Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

February 20, 2015

Ms. Joanne Brown
General Manager
Port Authority of Guam
1026 Cabras Highway, Suite 201
Piti, Guam 96925

Dear Ms. Brown:

In planning and performing our audit of the financial statements of Port Authority of Guam (the Authority) as of and for the year ended September 30, 2014 (on which we have issued our report dated February 20, 2015), 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, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Authority's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have separately reported in a letter dated February 20, 2015 addressed to the Authority's Board of Directors, certain deficiencies involving the Authority's information technology environment.

We have also issued a separate report to the Board of Directors, also dated February 20, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, the Office of Public Accountability - Guam and the Federal cognizant agency and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1. Port Modernization Plan

   Comment: Certain construction in progress related to the Port Modernization Plan is administered by the Maritime Administration (MARAD). As of September 30, 2014, Phase 2 of the three phases of construction was complete; however, related costs were not recorded as timely cost information was not received from MARAD.

   Construction in progress related to the Port Modernization Plan also consists of several task orders administered by the Authority with the assistance of a port consultant. One-half of task orders 28 and 35 (approximately $1.5 million) were charged to expense at year end based on allocations provided by the consultant.

   Recommendation: The Authority should request timely updates of costs incurred on projects administered by MARAD.

   Capitalization or expensing should be analyzed as costs are incurred to the extent possible.

2. Sales Invoices

   Comment:

   Of seventy-five sales invoices tested, we noted the following:

   - Invoice #80505
     a. Overtime hours of one crane operator are understated per the operation report
     b. Overtime differential rate was used instead of night shift differential rate for four crane operators
     c. Hours of five stevedores are overstated per the operation report
   - Invoice # 81542
     a. Six crane operators were billed when only five crane operators worked per the operation report
     b. Three gangs of stevedores were billed when only two gangs of stevedores worked per the operation report
   - Invoice # 80768
     a. Hours of seven stevedores are overstated per the operation report
   - Invoice #81430
     a. Overtime hours of two cargo operators, four crane operators, eleven equipment operators and five stevedores are understated per the operation report

   Tests of sales invoices also disclosed the following matters:

   - Operation reports are not signed by the preparer and reviewer, or are only evidenced by the supervisor's initials
   - Hours billed per operation reports are inconsistently rounded
   - Agent's name was not indicated in the "Authorized Print Name" stamped on the MCO report

   Recommendation: Invoice computations should be reviewed prior to being sent. Operation reports should be signed by the preparer and reviewer.

3. Payroll

   Comment: HR approved a pay rate increase for employee 1021 due to completion of an enhancement course. However, the Employee Handbook specifies that the employee must earn a degree in order to receive the increase.

   Recommendation: Pay rate increases should be in accordance with the Employee Handbook.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Agreements with Mobil Oil Guam, Inc. (Mobil) & IP&E Holding LLC (IP&E)

   Comment: Mobil stopped billing a management fee related to barrels imported, exported or bunkered. However, the Authority continues to accrue the fee. Accrued fees as of September 30, 2014 were $71,127.

   The Authority has not finalized a lease agreement with IP&E since 2010.

   Recommendation: The Authority should clarify terms of the management agreement with Mobil. The Authority should finalize the lease agreement with IP&E.

2. Interest Capitalization for Qualifying Assets

   Comment: The Authority does not capitalize interest for qualifying non-federal capital assets undergoing activities to prepare them for usage (construction in progress).

   Recommendation: Interest should be capitalized for assets constructed by the Authority which require time to get them ready for their intended use. The amount capitalized shall be determined by applying an effective interest rate to the average amount of accumulated expenditures for the asset during the period of construction.

3. Fixed Asset Count

   Comment: It is the Authority's policy to conduct a fixed asset inventory every two years. The Authority conducted a fixed asset count during the year. However, the Authority did not conduct a 100% count of digital radios. One of three digital radios tested cannot be located.

   Recommendation: The Authority should conduct a 100% count of fixed assets in accordance with its policy.

4. Accuracy of Weight for Bulk/Breakbulk Cargo

   Comment: The Authority relies on the cargo manifest of bulk/breakbulk cargo to determine the weight of the goods received which is the basis for charging wharfage.

   Recommendation: The Authority may consider performing periodic actual weigh-in of bulk/break bulk cargo to verify that wharfage fees are accurately charged.

5. Written Accounting Policy or Manual

   Comment: The Authority has accounting processes and procedures in place; however, some are not in writing.

   Recommendation: We recommend the Authority develop a written accounting policy/manual. The written accounting policy/manual will serve as a guide in applying generally accepted accounting principles and reduce variances related to employee judgment. Furthermore, this process will promote efficiency by streamlining decision processes.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.