Deloitte.

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

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

February 15, 2013

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, 2012 (on which we have issued our report dated February 15, 2013), 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, 2012 that we wish to bring to your attention.

We have separately reported in a letter dated February 15, 2013 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 15, 2013, 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

APPENDIX I

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1. Port Modernization Plan

   Comment: As discussed in note 8, construction in progress related to the Port Modernization Plan consists of several task orders totaling $13.8 million as of September 30, 2012. Task orders are presented to the Board of Directors for approval. As of September 30, 2012, the Authority has not charged task orders to specific capital assets.

   Recommendation: Considering potential changes in the Guam military buildup, the Authority should review and analyze the costs charged to the Port Modernization Plan. The Authority should also identify the capital assets to which the costs will ultimately be charged to.

2. Status Monitoring of Construction in Progress

   Comment: Monitoring of capital project status is not in place. Currently, the Accounting Department inquires of the project status with the Engineering Department based on a review of the movement of capital projects costs.

   Recommendation: The Authority should consider periodic reviews of capital project status, e.g. on a monthly or quarterly basis. Monitoring procedures should include regular meetings between project managers and accounting personnel.

3. Leave Form Approval

   Comment: For one annual leave form tested (Employee no. 1420), the approver signed an annual leave form but the number of hours was left blank.

   Recommendation: We recommend that leave forms be properly completed to evidence that vacation hours taken by the employees are authorized.

4. Journal Entries

   Comment: Our tests of journal entries indicated that seven journal entries (Document Nos. 6438, 8287, 8288, 8289, 8290, 8291 and 8386) did not contain a description or an explanation.

   Recommendation: Journal entries should include an explanation of the entry.

5. Lapsed Grant Funds

   Comment: Federal funding sources are to be expended within the project period specified in the grant or extension. Under grant CIP-2007-1, $39,164 in grant funds were not spent as of the grant completion date.

   Recommendation: The Authority should strengthen the monitoring of grant period of availability to minimize fund lapses.

6. Procurement Documentation

   Comment: One procurement item tested (Ref. No. PAG 08-007/09-0001) procured in FY2009, documentation related to disqualification of an offeror, score sheets of the accepted offerors, and rationale for vendor selection were not readily available in the Authority's procurement files. Copies of such documentation had to be sourced from the Authority's predecessor auditors for our examination.

   Recommendation: We recommend that pertinent procurement files are properly maintained.

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)

   Comment: Mobil stopped billing a management fee related to barrels imported, exported or bunkered. However, the Authority continues to accrue the fee even though there is no intention to pay. Accrued fees as of September 30, 2012 were $207,878. The Authority believes that it can offset the accrual against its receivable from Mobil. As of September 30, 2012, the Authority has $493,708 in receivables from Mobil of which $410,055 are long outstanding.

   Recommendation: The Authority should clarify terms of the management agreement with Mobil and settle long outstanding accounts.

2. Lease Arrangement With Consolidated Transport Services, Inc. (CTSI)

   Comment: The Authority does not have a formal lease agreement with CTSI regarding the rental of the chassis lot (Lse.# 2011-005).

   Recommendation: The Authority should enter into a formal lease agreement with CTSI to minimize the potential for disputes.

SECTION III – DEFINITIONS

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.

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.

APPENDIX II

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.