Management Letter

Port Authority of Guam

For the year ended September 30, 2009

Ernst & Young

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The Management and Board of Directors
Port Authority of Guam
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In planning and performing our audit of the financial statements of the Port Authority of Guam (the Authority) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Material Weakness

We noted the following material weakness, as defined above.

Reconciliation of Federal awards to the General Ledger

We noted that the Schedule of Expenditures of Federal Awards (SEFA) did not reconcile to the general ledger. It was noted that an allowable and reimbursable federal expenditure was properly included in the September 30, 2008 SEFA. However, the receivable and revenue relating to this transaction was not recorded in fiscal year 2008 but rather was recorded in fiscal year ended September 30, 2009.

The Authority should establish controls over the monitoring of federal awards that will include a review of the SEFA in detail and its reconciliation with the general ledger.

Significant Deficiency

We noted the following significant deficiency, as defined above.

Internal Controls Over Processing of Federal Awards

The Authority has not established adequate controls over the processing of federal awards. Accordingly, this results in a risk that timely accounting for and monitoring of federal awards are not done. During the audit, it was noted that certain costs of completed and on-going task orders were not included in the SEFA for the year ended September 30, 2009.

The Authority should establish written policies and create a formal system for the processing of financial and federal award transactions. The need for timely and accurate reporting is heightened due to the expected increase in federal awards, including American Recovery Reinvestment Act awards, and the strict reporting requirements called for. Furthermore, we recommend that the Authority assign an individual within the Finance Division who will specialize in and focus on accounting and reporting over Federal grants to ensure compliance with all aspects of grant agreements.

Control Deficiency

We noted the following control deficiency, as defined above.

Integration of Information Systems

The Authority's Container Tracking System (CTS) is currently not integrated with the JD Edwards (JDE) system. We observed that finance personnel manually encode the line revenues calculated through the Invoice Detail Summary (IDS), a system report generated by CTS, to JDE in order to prepare billings relating to vessel operations.

Also, there is a manual process in the Port Entry office, wherein all entry documents are monitored through a manual log. However, the information from the manual log is not compared with the IDS information, to determine whether all vessel operations are properly billed and accounted.

We understand that management is currently in the process of modernizing the Port operations. The Authority should consider the automation of its operations as well as the integration of both the operations (CTS, Payroll, etc.) and accounting systems (JDE). For the meantime, the Authority should also review its controls to ensure that manual processes are still effective and efficient in generating accurate and timely financial information.

<u>Other Matters</u>

We noted other matters which are described below:

Fixed Assets Capitalization

The Authority capitalizes fixed asset acquisitions of at least $1,000 and that have a useful life of at least one year. Management should re-evaluate the threshold amount so that small expenditures are not unnecessarily capitalized, thus, reducing the administrative work of maintaining records for such insignificant asset acquisitions.

Leases

During our audit of leases, we noted the following:

1. Our reasonableness test of lease income resulted in a difference totaling $48,000.
2. Certain lease extensions and renewals, as well as, rental escalations, were not documented in writing.
3. The deferred revenue relating to advance lease payments were not properly accounted for and amortized based on the provisions of the respective lease agreements.

We recommend that the Authority completely account for all its agreements, maintain a file of all the significant provisions (e.g., terms, escalation, etc.) and periodically monitor them to ensure all valid transactions and events are recorded. Also, amortization of the deferred revenue account should be periodically performed.

Procurement

During our audit of procurement, we tested 25 cash disbursements and noted the following:

1. We were unable to examine the purchase requisition forms for four invoices.

2. The Authority was informed, by the General Services Agency (GSA), that effective January 2, 2008, GSA would have the responsibility to process and approve procurements for the Authority. During our testing, we noted that there were seven invoices relating to small purchases that were approved by the Authority's Supply Management Supervisor and other Port personnel even after the January 2, 2008 notification from GSA.

We recommend that management review its current procurement procedures to ensure compliance with policies. In addition, the documents supporting the transactions recorded by the Authority should be maintained for easy reference.

<u>Other Matters, continued</u>

Emergency Procurement

As noted in the prior year, the Authority entered into a Memorandum of Agreement (MOA) for equipment repair and maintenance services on July 3, 2003. The MOA was negotiated under an emergency procurement and is valid for a period of thirty (30) days. Services continue to be rendered based on this Agreement.

We recommend that since the emergency conditions of the July 3, 2003 MOA have been addressed, the Authority should undertake another bidding process to satisfy future repairs and maintenance on the related equipment.

Approval of Overtime and Other Hours Worked

During our payroll test, we noted the following:

1. For one of the 25 samples tested, the overtime paid was not reflected in the employee's timesheet, therefore, resulting in an unauthorized overtime work.
2. In one instance, the hours charged by an employee to training did not have an authorization from the General Manager. It is our understanding that such authorization is required per the Authority's employee handbook.

As stated in the Authority's employee handbook, all overtime hours should be reported in the timesheet and approved by the department manager. We recommend that the Authority comply with this policy. By indicating approvals on all overtime work, the Authority is assured that it pays only the overtime work that was actually authorized and rendered in the operations of the Authority.

Timely Recording of Expenses

We observed that certain expenses were not recorded in the proper period. We recommend that management periodically review accruals to ensure that all expenses are recorded in the proper accounting period.

Information System Control Review

We have separately reported in our letter dated January 28, 2010, addressed to the Authority's Board of Directors, certain information technology issues that we consider to be significant deficiencies under standards established by US generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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This communication is intended solely for the information and use of Management and the Board of Directors of the Authority, others within the organization, and the Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP