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April 19, 2018

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

Dear Ms. Brown:

In connection with our audit of the financial statements of Port Authority of Guam (the Authority) as of and for the year ended September 30, 2017 (on which we have issued our report dated April 19, 2018), performed 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. 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, 2017 that we wish to bring to your attention.

We have separately reported in a letter dated April 19, 2018 addressed to the Authority's management, certain deficiencies involving the Authority's information technology environment, and other matters as of September 30, 2017.

We have also issued a separate report to the Board of Directors, also dated April 19, 2018, 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 designing, implementing 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 for the year ended September 30, 2017 that we wish to bring to your attention:

1. Port Modernization Plan

   Comment: Pursuant to the Merchant Marine Act of 1936 and Guam Public Law (P.L.) 110-417 Section 3512, the Authority entered into a Memorandum of Agreement with the Maritime Administration (MARAD), as the lead federal agency to implement and administer the Port of Guam Improvement Enterprise Program in accordance with the Port Master Plan Update 2007. Projects involved the facilitation of the modernization, expansion and transformation of the Jose D. Leon Guerrero Commercial Port. MARAD provided a dashboard project expenditure summary to the Authority in FY2015, which was used as the basis for recording $48.2 million of capital assets. In FY2016, an updated dashboard project expenditure summary was received showing a revised total project cost of $47.3 million. An adjustment of $900,000 to capital assets was made in FY2016 to reflect the updated project cost. No significant changes were noted in the updated dashboard project expenditure summary provided in FY2017. No final project expenditure summary has been received from MARAD as of September 30, 2017, even though the projects were completed two years ago.

   Prior Year Status: This comment is reiterative of conditions identified in our prior year audit of the Authority.

   Recommendation: Management should continue to request the complete and final turnover documents from MARAD to finalize the Port Modernization Plan project cost.

2. Sales Invoices

   Comment:

   Test of sales invoices disclosed the following matters:

   - Two vessel visits (visit ID #23837 and #23823) were not invoiced.
   - Two invoices (invoice #101279 and #100599) have different vessel ID's assigned due to a system glitch during the invoice upload to JD Edwards.
   - A system glitch caused vessel references to skip sequence ID numbers.

   Recommendation: Vessel entries reported in the Harbor Master Report should be reconciled monthly with invoices issued and discrepancies should be timely investigated. Management should address system errors to verify the complete sequential order of the vessel IDs.

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. Lease Agreements

   Comment: The Authority has not finalized lease agreements with three tenants.

   Prior Year Status: This comment is reiterative of conditions identified in our prior year audit of the Authority.

   Recommendation: The Authority should finalize the three lease agreements.

2. Interest Capitalization for Qualifying Assets

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

   Prior Year Status: This comment is reiterative of conditions identified in our prior year audit of the Authority.

   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. Construction in progress financed by grants is not eligible for interest capitalization.

3. Fixed Asset Register

   Comment: Fixed asset register movements do not reconcile with the general ledger by $40,954 due to disposals not reflected in the fixed asset register.

   Prior Year Status: This comment is reiterative of conditions identified in our prior year audit of the Authority.

   Recommendation: The Authority should timely reconcile the fixed assets register to the general ledger.

4. Human Resources (HR)

   Comment: The employee listing is not timely updated by the HR department.

   Recommendation: The HR department should maintain and timely update the employee listing.

SECTION III – DEFINITION

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 accounting principles generally accepted in the United States of America. In this regard, the Authority's management is also responsible for designing, implementing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.