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January 28, 2010

The Board of Directors
Antonio B. Won Pat International Airport
Authority, Guam

In planning and performing our audit of the financial statements of the Antonio B. Won Pat International Airport Authority, 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.

Control Deficiencies and Other Matters

During our audit, we noted control deficiencies, as defined above, which are described in the following pages.

Regular Updates on Accrued Annual Leave

Condition:

The Authority does not regularly update its accrued annual leave which makes the reconciliation at year end time consuming. This also results in untimely verification of the accuracy and completeness of the recorded account balances.

Regular Updates on Accrued Annual Leave, continued

Recommendation:

Updating the accrued annual leave on a monthly or quarterly basis would help the Authority to distribute its year end workload throughout the fiscal year. This will also provide early detection of any recording errors. Also, a staff other than the preparer or a designated officer should review the schedule.

Regular Reconciliation of Accounts with CN6459 and CN6580

Condition:

Collections of payments from the Authority's significant customers are not properly identified to specific billings made by the Authority, which makes the reconciliation of accounts difficult.

Recommendation:

The Authority should ensure that periodic reconciliations of its accounts with major customers are performed.

Prompt account balance reconciliation may help to detect and correct errors. The customer acknowledgement of the billings sent by the Authority through confirmation will also help the Authority identify disputed billings and avoid long-outstanding accounts receivable.

Work-in Progress Close-Outs and Useful Lives of Capital Assets

Condition:

We noted certain completed projects are not timely reclassified out of the work-in-progress general ledger account and into the capital asset category.

Capitalization of fixed assets that are placed in service should be recorded in the proper accounting period. This would allow for the commencement of depreciation expense to be recognized in the proper accounting period which the capital asset has been placed in service.

Work-in Progress Close-Outs and Useful Lives of Capital Assets, continued

Condition, continued:

In addition, we also noted that there may be a need to accelerate the depreciation of certain capital assets whose useful lives may not be realistic.

Recommendation:

The Authority should periodically review work-in-progress projects and close-out portions that have been completed and placed into service. Depreciation should also be recognized from the date the close-out portions are placed into service. We also suggest the Authority to revisit useful lives of all its capital assets and reconsider their estimated useful lives.

Support for the Accrued Compensation based on Public Law. 29-154

Condition:

We understand that Public Law 29-154 should be implemented retroactively from October 1, 2008 and as a result, the Authority recorded an accrued liability totaling $707,080 as of September 30, 2009. However, we also understand that the accrued liability is based on a reasonable estimate by the Authority's management and that this estimate has not been approved by the Authority's board of directors.

Recommendation:

We recommend the Authority to revisit the amount of accrued liability as soon as the actual compensation liability is determined and approved by the board of directors.

Customs Fees

Condition:

Under Public Law 23-45, the Authority assesses and collects from air carriers, fees for customs and agricultural inspection services rendered at the terminal. The air carriers are required to remit these fees to the Authority within 30 days from collection, otherwise a 10% interest should be levied to the air carrier. The Authority is required to remit all collections, within five days of receipt, to the Treasurer of Guam (TOG) for deposit to the Customs, Agriculture and Quarantine Services Fund.

We noted the following delays in collection of fees from air carriers:

Airline	Amount	Invoice Date	Date of Receipt	No. of Days
CN6580	$80,329	08/25/08	09/26/08	32
CN6367	$49,093	11/18/08	12/23/08	35
CN6871	$57	10/27/08	03/20/09	144

The aforementioned air carriers missed the 30-day deadline to remit customs fees to the Authority. However, no interest was charged to these air carriers.

We also noted the following delays in remittances of fees to TOG:

Month	Airline	Amount	Date of Receipt	Date of Remittance	No. of Days
Jan -09	CN6141	$9,979	12/24/08	01/09/09	16
	CN6367	$49,093	12/24/08	01/09/09	16
	CN6002	$117,762	12/30/08	01/09/09	10
Mar-09	CN6005	$122,176	02/20/09	03/06/09	14
Apr-09	CN6404	$18,921	03/20/09	04/03/09	14
	CN6681	$38	03/20/09	04/03/09	14
	CN6901	$6	03/20/09	04/03/09	14
	CN6871	$57	03/23/09	04/03/09	11
	CN6002	$143,036	03/24/09	04/03/09	10
May-09	CN6942	$64	04/16/09	05/01/09	15

Customs Fees, continued

Condition, continued:

The Authority missed the five day deadline to remit customs fees. The combined Custom Fees and Landing and Parking payments made by the air carriers are deposited directly to the Authority's General Revenue Funds. The Custom Fees are then segregated and transferred to the Custom Facilities Charges account.

Recommendation:

The Authority should continue its efforts to remit collections from air carriers to the TOG within five (5) days of receipt, in accordance with the requirements of PL 23-45. In addition, we recommend the Authority to levy the 10% interest on air carriers who do not remit the fees within the 30-day prescribed period.

FEMA Quarterly Report

Condition:

The Authority is required to submit progress reports on a quarterly basis until the FEMA Project has been completed. As stated in Part 3d of the Hazard Mitigation Grant Program (HMGP) Application, the reports should indicate the status and completion dates for each project funded. The project ended in March 2009, and as a result, only two reports were needed for FY09. The copy of the reports did not have a stamp acknowledging the receipt of the report. Such an acknowledgement should show the name and signature of the person from HMGP that received the report, as well as the date and time of filing. In addition, we also noted that the Authority does not have a proper filing system for these reports, as some are e-mailed to HMGP and stamped copies are not obtained and filed.

Recommendation:

We recommend the Authority to ensure that all copies of the FEMA Quarterly Reports have a stamp evidencing that the report had been properly received by HMGP. We also recommend that all copies be filed together in one folder, to ensure that there are no missing reports.

Activities Allowed or Unallowed – Administrative Costs

Condition:

We understand that the Federal Aviation Administration (FAA) has expressed concern over the Authority's accounting process over administrative costs reimbursed under the federally funded Airport Improvement Program, specifically costs related to the Authority's consultant, sub-consultant and construction managers.

As of July 23, 2009, the Authority ceased processing its reimbursement requests for costs incurred to pay its consultant and construction managers who work on federally funded projects. The Authority was required to formalize a Cost Allocation Plan, as well as an Administrative Cost Plan, which is part of the assurances listed in the Risk Reduction Plan submitted by the Authority to FAA in August 2009 to address the FAA's concerns.

Recommendation:

The Authority has committed itself to a Risk Reduction Plan (the Plan) that was submitted and reviewed by the FAA. By following the terms of the Plan, the Authority may be able to resolve the issues and concerns addressed by the FAA.

Internal Controls over Financial Reporting

Condition:

The controls over the financial statement close process should allow for timely and complete recording of transactions. However, we noted the Schedule of Expenditures of Federal Awards (SEFA) for the year ended September 30, 2009 was not made available until approximately one week after the closing trial balance was prepared. This resulted in a post-closing adjustment of $1.9 million increase in federal awards. It was further noted that the delay was due to the need for additional time to reconcile and identify the work-in-progress schedule for allowable cost reimbursements and compute the matching share.

Recommendation:

The Authority should consider the creation of a timeline of when information needs to be accumulated and summarized by the different individuals involved in the financial statement closing process. Deviations from the timeline may help identify root causes for delays in the financial statement close process.

Internal Controls and Staffing Issues Over Federal Awards

Condition:

A handbook describing standard operating procedures on recordkeeping over federal awards should be created and personnel should be cross-trained to handle recordkeeping and reporting over federal awards.

We noted the responsibility of recordkeeping and reporting of federal awards lies with one staff. In the event this designated staff would be absent for a prolonged period, proper accounting over federal awards may be at risk. This risk is compounded due to:

- a lack of a handbook describing standard operating procedures in respects to federal awards
- a lack of a cross-training plan to mitigate negative consequences of a prolonged absence of the designated staff handling the federal awards, and
- an increasing volume of federal awards

We also noted the Authority's accounting division does not have a written policy that establishes staff responsibilities nor does it provide procedures for periodic monitoring, verification, and reporting of program progress and accomplishments. In addition, there is no formal tracking system to remind staff of when financial and federal reports are due.

Although the Authority remains diligent in complying with the terms of the grant agreements, we noted delays in reconciling the SEFA with the trial balance and limited staff have resulted in a lag time in the requests of reimbursements for some allowable costs.

Recommendation:

The Authority should establish written policies for the processing of financial and federal award transactions. The Authority should also create a formal system to ensure there is timely processing and review for reporting. Furthermore, we recommend that the Authority assign an individual or team who will specialize in accounting and reporting over federal grants to ensure compliance with all aspects of grant agreement. The need for timely and accurate data is even more paramount due to strict reporting deadlines imposed by the American Recovery Reinvestment Act (ARRA).

Other Matters

We would like to commend the Authority's efforts in pursuing collection on the long outstanding receivables from Customer No. 6142.

In addition, it was noted that the Authority continued its relentless pursuit of federal funding to help subsidize its capital improvement projects. The Authority was awarded $36.3 million and $29.9 million in federal grants for the fiscal years ended September 30, 2009 and 2008, respectively.

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.

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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