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February 26, 2014

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, 2013 (on which we have issued our report dated February 26, 2014), 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, 2013 that we wish to bring to your attention.

We have separately reported in a letter dated February 26, 2014 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 26, 2014, 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, 2013 that we wish to bring to your attention:

### 1. Port Modernization Plan

Comment: Construction in progress related to the Port Modernization Plan consists of several task orders which are presented to the Board of Directors for approval. Because of changes in the Guam military buildup, the Authority reviewed Port Modernization Plan task orders in 2013 and identified \$2.6 million of task orders for projects not expected to be realized. These task orders were charged to expense. However, as of September 30, 2013, the Authority has not charged the remaining task orders to specific capital assets.

Recommendation: The Authority should identify capital assets to which Port Modernization Plan costs will ultimately be charged to.

### 2. Timely Capitalization of Construction in Progress

Comment: Three construction in progress projects were not timely capitalized during the year.

Recommendation: We recommend timely capitalization of construction in progress so depreciation can be recorded accurately and timely.

### 3. Annual and Sick Leave

Comment:

The following were noted relative to annual and sick leave:

- Pay rates per the accrued sick leave schedule did not agree with the effective pay rates as of September 30, 2013
- Annual leave forms for employee 1870 were approved after leave was taken
- The type of leave taken was not indicated on one form

Recommendation: Leave forms should be timely completed and authorized. Calculate leave accruals should be updated with the most recent pay rates.

### 4. Sales Invoices

Comment: The Accountant III, who reviews sales invoices, does not sign the invoices as evidence of review.

Recommendation: The Accountant III should sign sales invoices as evidence of review.

## 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, 2013 were \$287,216. The Authority believes that it can offset the accrual against its receivable from Mobil. As of September 30, 2013, the Authority has \$491,017 in receivables from Mobil, of which \$410,055 are long outstanding.

Recommendation: The Authority should settle long outstanding accounts with Mobil.

### 2. Journal Entries

Comment: Two unauthorized accounting staff made changes to posted journal entries. According to IT personnel, it is possible that their names were captured by the system because the text field (entry description) is open and can be edited even after an entry is posted. However, no edits can be made of journal entry amounts and account numbers.

Recommendation: The text fields of the journal entries should be secured to avoid unauthorized changes to posted journal entries.

### 3. Liquidated Damages

Comment: At September 30, 2013, the Authority has accrued \$187,379 of liquidated damages outstanding since 2007.

Recommendation: We recommend the Authority validate or write-off this long outstanding payable.

### 4. 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.

## 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.