

January 31, 2006

Board of Directors
Port Authority of Guam:

Gentlemen:

In planning and performing our audit of the financial statements of Port Authority of Guam (the Authority) for the year ended September 30, 2005, on which we have issued our report dated January 31, 2006, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

Finding Number 1 – Fixed Assets

Criteria: Regular inventories of fixed assets should be performed. Missing and out-of-service assets should be written off.

Condition: Of 93 fixed assets tested for physical existence, three assets with a total cost of \$5,140.36 and twenty assets with a total cost of \$41,257.34 were determined to be missing and out of service, respectively. Most of the missing or out of service assets are fully depreciated.

Cause: Weakness in controls over the monitoring of fixed assets contributes to this condition.

Effect: Fixed assets may be immaterially overstated.

Recommendation: The fixed assets schedule should be periodically reviewed and spot checks should be performed throughout the year to ensure that assets no longer in service are properly disposed of.

Auditee Response: The Property Control Officer has begun scheduling reviews of property assigned to each division this past fiscal year. Assets that were found to be non-operable were surveyed and are indicated in the increase of Loss on Asset Disposal expense this year. This process will be continued regularly to identify the condition of assets. Computers that are in the container stock room are in the process of being surveyed in FY 2006. One of the computer that was listed as a missing asset may be in one of two sections (Safety and Terminal) that are still using this type of computer. The asset tag may have fallen off and these computers do not have any serial numbers to identify one from the other. All of these assets that are out of service or missing have a net book value of zero. Therefore, the fixed assets are not overstated.

The Port concurs that the fixed assets schedule should be reviewed periodically and ~~perform~~ spot checks should be performed regularly to identify assets that are no longer in service.

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Finding Number 2 – Fuel Charge

Criteria: Payments for fuel should be made for valid charges.

Condition: Check no. 64429 for \$12,997.53, which represents payment for fuel, included \$39.89 of unsupported charges.

Cause: A weakness in controls over the review of supporting documentation prior to payment contributed to this condition.

Effect: Payments of invalid charges may result from this condition.

Recommendation: Invoices should be carefully reviewed before payment to ensure such represent valid charges.

Auditee Response: The procedure of paying fuel charges normally starts by reconciling the statement of charges with the fuel receipts submitted by each division every month. Any charge that does not have the corresponding receipt, the identification of the card holder, and/or the license plate of the automobile will be deducted from the total billing amount. Once the verification of the charges is completed, it is forwarded for payment scheduling.

During the review of this particular billing, the identification on one of the vehicles was not part of the list of fleet owned by the Port. It was marked as a questionable charge but it was not deducted from the total amount to be paid. There are times that the Port requests other agencies assistance, such as GPD, Guam Airport Police and Customs, during passenger vessel operation. Management would authorize the fueling charge on their vehicles since they are assisting in this operation. This is a possible reason why the vehicle couldn't be identified as the Port's own.

The Port concurs that invoices must be carefully verified before making the payment.

Finding Number 3 – Obsolete Inventory Policy

Criteria: A policy for establishing an allowance for obsolete inventory should be formulated.

Condition: Management does not have an established policy supporting the calculation of the allowance for obsolete inventory.

Cause: While many inventory items are not subject to rapid obsolescence and while we understand that replacement parts must be on hand to accommodate emergency repairs, the inventory should still be assessed to ensure that the values of obsolete parts are appropriately reserved for in the financial statements.

Effect: Inventory may be immaterially overstated as a result of this condition.

Recommendation: A policy for determining an allowance for obsolete inventory should be established.

Finding Number 3 – Obsolete Inventory Policy, Continued

Auditee Response: The Port concurs that a policy on allowance for obsolete inventory should be established.

The allowance will be based on the percentage of inventory items that are not used over the total cost of inventory items for the year. An adjusting entry will be made before year end to make sure that the balance of the allowance for obsolete inventory is within the percentage of unused inventory items.

Finding Number 4 – Property on Loan

Criteria: Assets purchased should be for the use of the Authority.

Condition: A computer tape drive with an original cost of \$64,200 has been on loan to the Department of Administration at no cost since November 5, 2004.

Cause: A weakness in controls over monitoring loaned assets appears to contribute to this condition.

Effect: Assets acquired for Port Authority use may not be utilized for that purpose.

Recommendation: The Authority should not acquire assets that are not required for internal use.

Auditee Response: The Port agrees that assets purchased must be used for the benefit of the agency.

The Authority periodically procures new hardware to keep up with the constant change of technology to support its extensive operation. In that process, there could be old assets that may be utilized as back-ups for the newer system. The Port will make certain that items that are in the Fixed Assets listing are operable and being used by the assigned division.

Finding Number 5 – Stolen Firearm

Criteria: Stolen firearms should be promptly reported to the Police Department.

Condition: The Authority could not locate the police report for a firearm stolen from a Port police officer.

Cause: A weakness in controls over document retention appears to contribute to this condition.

Effect: This condition has no financial statement impact.

Recommendation: Management should ensure that a police report is obtained and maintained on file.

Finding Number 5 – Stolen Firearm, Continued

Auditee Response: The Port concurs that a police report is to be maintained on file for stolen property.

This incident occurred more than five years ago. Property Control Officer (PCO) during that period did not submit a copy of the Police Report or other documents to report the missing assets. The Port Police Chief has ordered the officer to obtain a copy of the Police report. Once the case number is identified, a copy of the Police report will be obtained. It has also been learned that the responsible person has been arrested and the firearm was recovered. The case is pending and the stolen asset is being held as evidence for the AG's office.

The PCO during the time incident happened is no longer working for the Port. A new stringent policy by the Port Police Division on the issuance and securing of duty side arms is almost complete and will be implemented. The PCO is now under the supervision of Finance division, the policy on stolen Port property will be thoroughly reviewed and any needed changes to improve the policy will be added and implemented firmly.

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This report is intended solely for the information and use of the Board of Directors and management of the Port Authority of Guam.

We wish to express our appreciation for the cooperation of the staff and management of the Authority during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

Deloitte & Touche LLP