Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

February 13, 2017

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, 2016 (on which we have issued our report dated February 13, 2017), 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, 2016 that we wish to bring to your attention.

We have separately reported in a letter dated February 13, 2017 addressed to the Authority's management, certain deficiencies involving the Authority's information technology environment, and other matters as of September 30, 2016.

We have also issued a separate report to the Board of Directors, also dated February 13, 2017, 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.

Although we have included management's written responses to our comments, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

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, 2016 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 fiscal year 2015, which was used as the basis for recording $48.2 million of capital assets. In 2016, 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 to reflect the updated project cost.

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

   Management Response: Management will follow up on the status of close out of project as the remaining funds will be used to purchase other equipment. Once this is determined the final project cost will be available.

2. Sales Invoices

   Comment:

   Test of sales invoices disclosed the following matters:

   - Two vessel entries were not billed as of September 30, 2016.
   - Operation reports were not signed by the preparer and reviewer.
   - The tariff code is not clear as to the applicable rate for transshipment of empty containers.

   Recommendation: Vessel entries reported in the Harbor Master Report should be reconciled monthly with the invoices issued and any discrepancy should be investigated timely. Operation reports should be signed by the preparer and reviewer. The demurrage rate for transshipped empty containers should be specified in the tariff code.

   Management Responses:

   The two vessel Port entry and dockage has been billed. Finance reviews Harbor Master's vessel call report to close the month. In this case there was a change in the departure date after our review that caused this oversight. We will implement expanding the review period.

   Reports not signed by the preparer, billing will return reports and ensure signatures are in place.

   Tariff Code for empty, this code is specified in the new Terminal Operating System (TOS).

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. Allowance for Doubtful Accounts

   Comment: The allowance rates used per receivable aging categories have not been updated in recent years and may not be reflective of the Authority's current collection history.

   Recommendation: The Authority should perform periodic reassessments of its allowance provisioning rates taking into consideration recent collection history.

   Management Response: The Port will review recommendation and verify if allowance rates for each category should be updated.

2. Management and Lease Agreements

   Comment: An oil company stopped billing management fees related to barrels imported, exported or bunkered in previous years. However, the Authority continues to accrue fees totaling $85,160 as of September 30, 2016.

   The Authority has not finalized two lease agreements under negotiation since 2010 and 2012.

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

   Recommendation: The Authority should clarify terms of the oil company management agreement. The Authority should finalize the two lease agreements.

   Management Response: The Port will follow up on the two lease agreements and strive to complete.

3. 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).

   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.

   Management Response: The Port will review and work on implementing in FY2017.

SECTION II – OTHER MATTERS, CONTINUED

4. Written Accounting Policy or Manual

   Comment: Various accounting processes and procedures are not documented in writing.

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

   Recommendation: We recommend the Authority develop an accounting policy manual.

   Management Response: The Port has recently implemented the Terminal Operating System (TOS) for billing. Policy/Manual has been created and working on updating/finalizing policies.

5. Fixed Asset Register

   Comment: Fixed asset register movements do not reconcile with the general ledger by $39,000 due to additions and disposals not properly reflected in the fixed asset register.

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

   Management Response: The Port will look at implementing reconciliation of fixed assets in FY2017 to address this issue.

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.