

January 26, 2012

The Management and Board of Directors  
Port Authority of Guam  
1026 Cabras Highway, Suite 201  
Piti, Guam 96925

In planning and performing our audit of the financial statements of the Port Authority of Guam (the Authority) as of and for the year ended September 30, 2011, 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

**Significant Deficiencies:**

**Oversight Committee on Port Modernization Plan Projects**

***Observation:***

During 2010, the Authority had a formal committee that reviews the task orders submitted by Parsons Brinkerhoff, its Owner Agent/Engineer, in relation to the Port Modernization Plan. This committee reviewed the details of the task orders and deliberates on the details. In 2011, the above committee was not in existence.

**Significant Deficiencies:**

**Oversight Committee on Port Modernization Plan Projects, continued**

***Recommendation:***

Although we understand that the Authority currently has a set of procedures to review such tasks orders, we recommend that an oversight committee consisting of specialists and senior management perform a review and analysis of the task orders and the overall modernization project, considering the magnitude of this undertaking.

***Management Response:***

When the Board changed its membership in January 2011, committees were not established. To ensure the work for the modernization program was not disrupted, task orders were reviewed by appropriate division heads and comments were submitted to the General Manager for consideration when executing the task orders. In September 2011, the General Manager provided a roadmap to the division heads advising them of the downsizing of the Owner's Agent Engineer's project management team. As such, division heads were informed as to what tasks they would need to assume ownership of for the modernization program. Additionally, the Board of Directors is reviewing a proposed draft policy establishing monetary thresholds of contractual obligations which would need Board approval. In the meantime, all task orders are being presented to the Board for their approval.

**Staffing**

***Observation:***

For fiscal year 2011, a comparison of the actual and budgeted staffing is as follows:

	Full Time and Casual Employees		
	<u>Actual</u>	<u>Budgeted</u>	<u>Over (Under)</u>
Operations *	7	28	(21)
Maintenance **	9	11	(2)
Management and Administrative ***	<u>17</u>	<u>12</u>	<u>5</u>
	<u>33</u>	<u>51</u>	<u>18</u>

\* Consist of operations, stevedoring, terminal, and transportation divisions.

\*\* Consist of equipment maintenance and facility maintenance divisions.

\*\*\* Consist of compliance/control, corporate services, marketing/public relations, strategic planning, and general manager's departments.

**Significant Deficiencies:**

**Staffing, continued**

***Observation, continued:***

During 2011, the Authority hired a total of 33 full time and casual employees and 16 separated during the same year or a total of 364 active employees as of September 30, 2011, compared to 347 employees as of September 30, 2010. Based on the above information, the Authority also reprogrammed the understaffing from operations and maintenance to accommodate the need for personnel in the management and administrative departments.

Hiring was made in preparation for the military buildup and the Port Modernization Project. However, based on the most available information, the military buildup will be delayed. This also affects the projected vessel and cargo revenues and ultimately the number of personnel needed.

***Recommendation:***

Although 12 GCA § 12001.2.d, which requires certain autonomous agencies to conduct a study comparing the staffing pattern and manpower to entities with similar operations, does not apply to the Authority, management may want to consider implementing a similar study. The study should also factor in variables in relation with the Port Modernization project. This is to ensure that the Port's operation is as effective and efficient compared to its counterparts.

***Management Response:***

The vacant positions that were approved for Fiscal year 2011 budget was intended to support the increase in operations due to the anticipated commencement of construction projects related to the Military buildup. Management will reassess the hiring made in FY 2011, make sure that these employees are properly trained to assist the administrative duties to support the Operations and Maintenance divisions. Current operations and maintenance employees would be able to focus in their main assignments in operations and leave the administrative duties to the new support employees. Since PAG is now under the purview of the Guam Public Utilities Commission, PAG will follow orders that are recommended by PUC consultants and the commission that are likewise required from other utilities, such as a staffing study. This will provide justification that the recommended tariff rate increase for the following years will subsidize operations cost that are properly staffed and comparable with other ports, capital improvement projects and debt service to support Port operations and modernization.

The financial feasibility report approved by the Guam Legislature in 2008, outlined financial analysis scenarios and recommended staffing reductions which the Port must consider if any is implemented. To validate if the staffing reduction number is accurate and take into consideration the reset of the modernization program, a management audit, similar to the one conducted by Port of Singapore Authority/Ernst & Young, conducted in 2000 should be updated.

**Deficiencies:**

**Procurement Compliance – Retention of Vendor Acknowledged Copies of Purchase Orders**

***Observations:***

- We noted that the following Purchase Orders (PO) released by the General Services Administration did not include a vendor acknowledged copy, in the file: PO 8960, 8969, 8975, 9027, 9080, 9139.
- We also noted that the following required communications were not found in the related procurement folders:

PAG-001-11/9073-OS Subject/Item:	Confirmation of sending of amendments and questions Ultra-low Diesel Fuel
9123-OP Subject/Item:	Discussions with end user on acceptable alternatives Dock Receipts
8975-OS Subject/Item:	Discussion with vendor on request for revision on quotation Conference Room Reservation for Training
CIP-011-001 Subject/Item:	Confirmation of sending of amendments and questions Design for GDP Marina Dock B Repairs

***Recommendations:***

We recommend that the Authority revisit its current processes/procedures to ensure that all required documentation is kept with the respective files.

***Management Response:***

PAG concurs with the above recommendation and will engage discussions with GSA to relate the issues above regarding PO's process and issued under their control. With regards to issues under PAG's administration and control, Procurement will strictly adhere to the process and procedures to ensure the files are properly maintained.

**Deficiencies:**

**Procurement Compliance – Tabulation of Evaluation Results**

***Observation:***

We noted a tabulation error in the compiling of the evaluation results for RFP - CIP-011-001, which is as follows:

	<u>Bidder</u>	<u>Inputted</u>	<u>Should Be</u>
Evaluator 1	Vendor 1	85	99
Evaluator 2	Vendor 1	87	75
Evaluator 2	Vendor 2	75	93
Evaluator 2	Vendor 3	93	87

We noted an error in encoding the results of the “individual” evaluator’s score worksheet to the evaluation score “summary” worksheet. We recomputed and tabulated the scores for each vendor and noted that the Authority awarded the RFP to the proper vendor.

***Recommendation:***

Even though there was no adverse effect as a result of the tabulation error, we recommend that the Authority revisit its controls in reviewing the tabulated results and ensure that a secondary reviewer goes over the tabulation results.

***Management Response:***

PAG Procurement concurs with the recommendation and will ensure that tabulations are reviewed more than twice to reconfirm its correctness.

**Other Matters:**

During the course of our audit, we noted the following administrative matters:

- On the inventory process, we noted that not all issuances and receipts of inventory were encoded in the system before the year-end count. We recommend that the Authority periodically update the inventory module of JDE for all movement of inventory.
- During the inventory count, we noted that the counters were using pencils instead of pens in recording the results of the count to the inventory tags. It is best practice to use pens to ensure that count results are not subsequently changed.
- During our payroll test, we noted several instances wherein the supporting documents for employee deductions (e.g., insurances, automatic deductions for bank loans, pension contribution, etc.) were not on file. We recommend that the Authority ensure that all payroll deductions are properly supported and filed.

***Management Response:***

Finance concurs to the recommendation and will ensure that documents to support the employee deductions are properly supported and filed.

Procurement concurs to the recommendations provided relating to inventory processes to ensure that all issuances and receipts are captured and encoded into the system prior to the year-end count.

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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.

*Ernst + Young LLP*

January 26, 2012