

Management Letter

**Antonio B. Won Pat International Airport Authority, Guam**

*For the year ended September 30, 2007*

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” also formerly known as the Guam International Airport Authority) as of and for the year ended September 30, 2007, 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 Findings 2007-1 through 2007-6 described in the following pages identified as control deficiencies as defined above.

Antonio B. Won Pat International Airport Authority, Guam

Management Letter, continued

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 the Public Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Ernst + Young LLP*

January 12, 2008

Antonio B. Won Pat International Airport Authority, Guam

Management Letter, continued

**Finding Number 2007-1**  
**Accounts Receivable - Trade**

Criteria:

Differences resulting from reconciliation of accounts receivable and disputes with customers and tenants should be investigated in a timely manner.

At September 30, 2007, we noted the following conditions, causes and effects of certain customer accounts:

Condition:

- The Authority's accounts receivable from Customer No. 6001 ("CN6001") includes disputed amounts totaling \$76,475. The dispute pertains to the immigration fees on transiting international passengers which CN6001 claims should not have been charged.
- Customer No. 6459 ("CN6459") did not reply to our accounts receivable confirmation request. It is our understanding the CN6459 is disputing amount billed for the period from July through September 2007. The Authority has accounts receivable outstanding from CN6459 for over 90 days totaling \$126,192 that have not been collected as of January 12, 2008, the date of our audit report.
- Customer No. 6580 ("CN6580") has not paid its accounts (facility usage charges) with the Authority since April 2007 and customs fees since March 2007.

Cause:

*CN6001*

- Before September 11, 2001, transiting international passengers were not required to undergo immigration inspection. However, as part of additional security procedures brought about by the threat of terrorism against the United States, transiting international passengers are now required to go through the immigration inspection procedures utilizing immigration facilities in the process.

Management Letter, continued

**Finding Number 2007-1, continued**

**Accounts Receivable – Trade**

Prior to December 31, 2006, the Authority did not assess all airline carriers immigration fees in accordance with the old Terminal and Operating Agreement. Under terms of the new Terminal and Operating Agreement an immigration inspection fee shall be calculated based on international deplaned passengers, which is defined as “(1) arriving passengers, and (2) in-transit passengers arriving at and departing from the airport on the same flight, or making a connection with another flight”.

*CN6459*

- CN6459 claims that certain old invoices totaling \$41,990 pertaining to billings made by the Authority for the months of January, May and June 2006 have already been paid. In addition, CN6459 questions the basis of the billings for the period from July through September 2007.

*CN6580*

- It appears that CN6580 is not current in compiling their monthly traffic information report. The Authority bills CN6580 an estimated amount based on the most recent traffic information report submitted by CN6580.

Effect:

- CN6001 is currently withholding payment for the disputed amounts until this issue is resolved.
- CN6459 is currently withholding payment until this issue is resolved.
- CN6580 is currently withholding payments until their account is reconciled.

Recommendation:

We recommend the following:

- The Authority should continue to pursue the resolution of the immigration inspection fee issue with CN6001.

Management Letter, continued

**Finding Number 2007-1, continued**

**Accounts Receivable - Trade**

- The Authority should perform periodic reconciliation of accounts with CN6459 and any differences identified should be resolved timely.
- The Authority and CN6580 should find a common solution for an earlier submission of traffic information reports to prevent the long and tedious reconciliation process of the respective accounts.

Auditee Response:

*CN6001*

Upon clarification of the terms and definitions per the Signatory Airline Operating Agreement and Terminal Building Lease, the airline has agreed to payment of the outstanding immigration fees. Henceforth, payment of immigration fees shall be made for deplaned passengers as defined in the aforementioned operating agreement to include arriving passengers and in-transit passengers arriving at and departing from the airport.

*CN6459*

The reconciliation of billings for the months of July 2007 through September 2007 is near completion for reimbursement from CN6459. CN6459 has been informed of the reconciliation and discrepancies between timecard and shift journals are primarily attributable to law enforcement officers assigned to shift one (12:00am - 12:00pm) for the screening areas being captured the day before on timecards for work performed the following day. Upon completion of the reconciliation, full reimbursement will be requested from CN6459. The Authority will be implementing a process of reviewing timecards and shift journals to ensure consistency in requests for reimbursement from CN6459.

*CN6580*

CN6580 has been remitting payments in excess of amount billed. These overpayments were applied to their outstanding account. In addition, the Authority is communicating with CN6580 to reconcile their account. Subsequent to January 12, 2008, CN6580 has made payment of approximately \$358,000.

Antonio B. Won Pat International Airport Authority, Guam

Management Letter, continued

**Finding Number 2007-2**  
**Accounts Receivable – Customer No. 6142**

Criteria:

Written agreements should be maintained to support balances recorded in the general ledger. *(Note: See Finding Number 2006-1 in prior year's management letter dated January 9, 2007.)*

Condition:

A promissory note has not been executed between the Customer No. 6142 (“CN6142”) and the Authority regarding past due rentals. At September 30, 2007, amounts due from CN6142 totaled \$1,315,834. CN6142 has not appropriated funds to cover this past due amount.

Cause:

It is our understanding from the Authority that upon transfer of the federal excess properties to the Authority under a Quitclaim Deed with the United States Navy (September 2000), CN6142 was a pre-existing occupant of certain facilities transferred to the Authority. In addition, it is our understanding that the Authority asserts that Guam Public Law 26-100 precludes CN6142 from occupying airport property and the Authority provided notice to CN6142 to relocate from airport premises, but still required rent payments pending CN6142's relocation off airport property.

In CN6142's letter dated April 28, 2006, addressed to the Authority's legal representative, CN6142 maintains that no monetary rent should be assessed by the Authority. CN6142 asserts that its lease with the Authority does not require lease payments. However, the Authority does not agree with CN6142's assertion.

Effect:

Based on recent developments, it appears that this receivable would only increase annually without probability of collection. The Authority made an appeal to the Office of the Governor and the Guam Legislature for an immediate solution of the issue.

Recommendation:

We encourage the Authority to continue pursuit of collection and if unsuccessful, then pursue a legal remedy.

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Management Letter, continued

**Finding Number 2007-2, continued**  
**Accounts Receivable – Customer No. 6142**

Auditee Response:

The Authority is pursuing the resolution of CN6142's arrears with the Authority's legal counsel through an amendment of Public Law 26-100 that will effectively permit CN6142 to occupy the airport property under an interim space lease pending its relocation off the airport property. The Authority will also continue to aggressively pursue the Guam Legislature and the Office of the Governor to secure funding for arrearages and rents due prospectively and assessing the option of a possible exchange of public lands that may be available to offset both arrears and rents due until such time of CN6142's relocation.

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Management Letter, continued

**Finding Number 2007-3**  
**Accounts Payable**

Criteria:

Differences identified from reconciliations of accounts payable with vendors should be investigated and resolved in a timely manner.

Condition:

We noted the Authority has not paid its recorded liability totaling \$454,440 to a vendor pertaining to several 2006 invoices. In addition, the Authority did not record and does not recognize this vendor's claim that the Authority owes for certain services performed during the years 2002 through 2004 with a value totaling \$242,462.

Cause:

Based on the provisions of the contract, "Contractor shall be responsible for the quality, timely completion, and coordination of all services furnished by the Contractor under the Agreement." The Authority asserts that the vendor had failed to provide quality maintenance and repair services necessary for the care of the equipment at the airport, and as a result, many of the related equipment have fallen into disrepair.

Effect:

The Authority holds vendor responsible for the breakdown of certain airport equipment due to unsatisfactory maintenance and repair services performed. Therefore, the Authority maintains it does not owe the aforementioned amounts. The vendor has filed a government claim in connection with the issue.

Recommendation:

Although a settlement had been initiated by the Authority without prevail the Authority should continue consulting with its legal counsel on the next course of action. Until this issue is resolved, the Authority should retain the recorded amount of liability totaling \$454,440 in its books.

Management Letter, continued

**Finding Number 2007-3, continued**  
**Accounts Payable**

Auditee Response:

The Authority reaffirms its rejection of the vendor's claim and its demand for payment of the work allegedly performed. The Authority asserts that the vendor has failed to fulfill its obligations as required under the contracts and further concludes that the documents submitted by the vendor in support of its claim for payment of particular invoices were deemed to be insufficient. While the Authority rejected the claim, the Authority reiterated its March 30, 2007 offer to pay a certain amount in full and final settlement of the entirety of the claim. The offer expired following no response by the vendor. The Authority will continue to work with its legal counsel on any further developments of this claim.

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Management Letter, continued

**Finding Number 2007-4**  
**Travel Expenses**

Criteria:

Section 3.11 of the Travel Policy states that "All travellers, including non-Airport persons or personnel traveling at the Authority's expense, are required to submit in writing to the Granting Authority a Travel Report not more than ten (10) calendar days after the conclusion of travel."

Condition:

We noted the following reports were submitted more than the allowable time period:

<b>T.A. No.</b>	<b>Date of Return</b>	<b>Report Received Date</b>	<b>No. of Days Late</b>
07-05-69	05/12/07	05/31/07	6
07-09-119	09/20/07	10/04/07	4

Cause:

The Authority is not following-up on travel expense reports from officers or employees who travel for business purposes.

Effect:

The Authority is not in compliance with its Travel Policy.

Recommendation:

The Authority should strictly implement its travel policy particularly on the timely submission of travel expense reports. This would also assist the Authority to account for differences, if any, between the travel expenses incurred and the travel advances made. This would also minimize the probability of lost documents due to lapse of time.

Auditee Response:

The Authority has developed procedures, travel expense reporting FORMS and REMINDER notices to reinforce the timely submission of travel expense reports. The Authority will continue to enforce strict compliance of the Travel Policy for submission of expense reports on a timely basis.

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Management Letter, continued

**Finding Number 2007-5**

**Customs Fees**

Criteria:

Under Public Law (“PL”) 23-45, the Authority assesses and collects from air carriers, fees for customs and agricultural inspection services rendered at the terminal. 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 (“CA&Q”) Services Fund.

*(Note: See Finding Number 2006-3 in prior year’s management letter dated January 9, 2007)*

Condition:

During our audit, we noted the following delays in remittances of fees to TOG:

	<b>Month</b>	<b>Airline</b>	<b>Amount</b>	<b>Date of Receipt</b>	<b>Date of Remittance</b>	<b>No. of Days</b>
<b>1)</b>	November-06	CN6002	130,977.84	10/30/06	11/17/06	13
		CN6006	40,894.80	10/30/06	11/17/06	13
		CN6757	25.44	11/01/06	11/17/06	11
		CN6760	25.44	11/03/06	11/17/06	9
<b>2)</b>	December-06	CN6404	10,869.21	11/09/06	12/15/06	31
		CN6404	13,012.56	11/09/06	12/15/06	31
		CN6255	12.72	11/17/06	12/15/06	23
		CN6001	239,784.72	12/06/06	12/15/06	4
		CN6006	31,062.24	11/30/06	12/15/06	10
		CN6757	25.44	11/24/06	12/15/06	16
		CN6002	122,569.92	11/24/06	12/15/06	16
		CN6141	9,800.76	12/05/06	12/15/06	5
<b>3)</b>	January-07	CN6002	135,359.88	12/28/06	01/05/07	3
		CN6141	1,749.00	12/18/06	01/05/07	13
		CN6404	6,264.60	12/18/06	01/05/07	13
		CN6367	50,517.48	12/21/06	01/05/07	10
<b>4)</b>	February-07	CN6001	246,437.28	02/09/07	02/23/07	9
		CN6001	254,132.88	02/09/07	02/23/07	9
<b>5)</b>	March-07	CN6001	260,244.85	03/12/07	03/23/07	6
<b>6)</b>	April-07	CN6005	59,387.86	03/19/07	04/20/07	27
		CN6005	30,593.74	03/19/07	04/20/07	27
<b>7)</b>	May-07	CN6006	36,754.44	05/01/07	05/11/07	5
		CN6404	8,318.88	05/04/07	05/11/07	2

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Management Letter, continued

**Finding Number 2007-5, continued**  
**Customs Fees**

	<b>Month</b>	<b>Airline</b>	<b>Amount</b>	<b>Date of Receipt</b>	<b>Date of Remittance</b>	<b>No. of Days</b>
<b>8)</b>	June-07	CN6248	4,057.68	06/06/07	06/29/07	18
		CN6141	1,049.40	06/14/07	06/29/07	10
		CN6002	128,020.44	06/15/07	06/29/07	9
		CN6373	6.36	06/20/07	06/29/07	4
		CN6367	49,703.40	06/22/07	06/29/07	2
<b>9)</b>	August-07	CN6823	19.08	8/2/2007	8/10/2007	3
<b>10)</b>	September-07	CN6838	31.80	9/18/2007	9/28/2007	5
		CN6580	13,534.08	09/07/06	9/28/2007	381
		CN6580	23,893.56	09/07/06	9/28/2007	381
		CN6580	19,022.76	09/07/06	9/28/2007	381
		CN6580	19,932.24	09/07/06	9/28/2007	381
		CN6634	12.72	09/20/07	9/28/2007	3
		CN6634	19.08	09/20/07	9/28/2007	3
		CN6634	12.72	09/20/07	9/28/2007	3

Cause:

It appears the Authority is not closely monitoring the timely remittance of custom fees. In particular, the combined Custom Fees and Landing and Parking payments made by the air carriers are deposited directly to the Authority's General Revenue Fund. The Custom Fees are then segregated and transferred to the Custom Facilities Charges account.

Effect:

The Authority is not in compliance with the requirements of PL 23-45.

Recommendation:

We recommend that the Authority remit collections from carriers to the TOG within five (5) days of receipt, in accordance with the requirements of PL 23-45.

Antonio B. Won Pat International Airport Authority, Guam

Management Letter, continued

**Finding Number 2007-5, continued**  
**Customs Fees**

Auditee Response:

The Authority conducts funds transfers on a weekly basis, specifically on Fridays. The majority of air carriers continue to send combined payments to include remittances for custom fees. These payments are initially deposited to the Revenue Account; then requiring the movement of funds to the Customs Facility Charge Account upon clearance. Once funds are cleared, the Authority offsets CA&Q outstanding receivables, particularly rent, and remits the balance to the CA&Q bank account.

Payments received from CN6580 exceeded the amount invoiced by the Authority. The overpayment was recorded in a deferred revenue account. The overpayment was then applied to the outstanding balance. Currently, the Authority is communicating with the CN6580 representative to reconcile their accounts.

Management Letter, continued

**Finding Number 2007-6**  
**Information Systems Environment**

Criteria:

The Authority's Information Technology Department should routinely monitor, enhance and implement security best practices.

Condition:

We noted the following:

1. Several System Values do not meet current recognized security best practices.
2. Powerful implementation user profiles were re-activated after the software upgrade.
3. Password expiration interval is not consistently set to 60 days for user profiles.

Cause:

1. System Values has not been changed since the system was purchased from IBM.
2. Change manage process is not in place.
3. The Authority's Data Processing Manager asserts that he was not aware of the condition noted.

Recommendation:

1. QLMTSECORF should set to 1 to limit SECOFR logon only to authorized workstations. QAUDLVL should set to \*SECURITY, \*SERVICE, AUTFAIL to log unusual events.
2. The Data Processing department should create a sign-off sheet to manage software change (upgrade). This will help remind the administrator to disable powerful implementation user profiles immediately after an upgrade.
3. Ensure all user profiles are in compliance with the Authority's password policy.

Auditee Response:

The Authority will familiarize itself with the current recognized security best practices. The Authority will review and implement the appropriate procedures and documentation as noted in the Auditor's recommendations.