

January 26, 2009

Board of Directors
Port Authority of Guam:

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Port Authority of Guam (the Authority) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated January 26, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated December 1, 2008, a copy of which is included in Appendix A. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Authority’s financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the Authority’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the Authority’s compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Authority are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Authority of their responsibilities.

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of the Authority's compliance with those requirements.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2008 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts, management's estimate of inventory obsolescence, which is based on management's evaluation of the inventory's realizable value, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. We are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on the Authority's financial reporting process. Such adjustments, listed in Appendix B, have been recorded in the accounting records and are reflected in the 2008 financial statements.

In addition, we have attached to this letter, as Appendix C, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application. New accounting policies adopted during the year ended September 30, 2008 are also set forth in Note 1 to the Authority's 2008 financial statements.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of the Authority's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2008.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2008.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2008 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix D, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated January 26, 2009, containing certain matters involving the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic 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.

We have identified, and included in the attached Appendix E, certain control deficiencies related to the Authority's internal control over financial reporting and also matters as of September 30, 2008 that we wish to bring to your attention. The definition of a control deficiency is also set forth in Appendix E.

This report is intended solely for the information and use of the Board of Directors, the management of the Port Authority of Guam and the Office of the Public Auditor of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte & Touche LLP



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December 1, 2008

Mr. Glenn Leon Guerrero
General Manager
Port Authority of Guam
1026 Cabras Highway, Suite 201
Piti, Guam 96925

Dear Mr. Leon Guerrero:

Deloitte & Touche LLP (“D&T” or “we” or “us”) is pleased to serve as independent auditors for the Port Authority of Guam (the “Authority”). Mr. Lee H. Vensel will be responsible for the services that we perform for the Authority hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Authority on issues as they arise throughout the year. Hence, we hope that you will call Mr. Vensel whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such terms and conditions shall be effective as of the date of the commencement of such services.

Audit of Financial Statements and Other Reporting

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (“generally accepted government auditing standards”). The objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on the fairness of the presentation of the Authority’s basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects
- Express an opinion on whether the supplementary information that accompanies the basic financial statements, including the schedule of expenditures of federal awards, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole
- Report on the Authority’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*

Port Authority of Guam
December 1, 2008

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- Report on the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement ("OMB Circular A-133").

Appendix A contains a description of our responsibilities and an audit under generally accepted auditing standards, generally accepted government auditing standards, and OMB Circular A-133.

Our ability to express an opinion and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if the report to be issued by D&T as a result of this engagement requires modification, the reasons therefore will be discussed with the Board of Directors ("Board of Directors"), the Office of the Public Auditor ("OPA") and the Authority's management.

Our report on the Authority's internal control and compliance and other matters will state that they are intended solely for the information and use of the OPA, Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Management's Responsibilities

Appendix B describes management's responsibilities for (1) the basic financial statements and all accompanying information, (2) representation letters, (3) independence matters as a result of restrictions on providing certain services, and (4) independence matters relating to hiring.

Responsibility of the Board of Directors

As independent auditors of the Authority, we acknowledge that the Board of Directors is directly responsible for the appointment, compensation, and oversight of our work and, accordingly, except as otherwise specifically noted, we will report directly to the Board of Directors. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities, have been approved by the Board of Directors in accordance with the Board's established preapproved policies and procedures.

Communications with the Board of Directors and the Office of the Public Auditor

Appendix C describes various matters that we are required by generally accepted auditing standards and generally accepted government auditing standards to communicate with the Board of Directors, the OPA and management.

Fees

Our fee the audit of the Authority's financial statements is \$32,000.

We anticipate sending invoices as work progresses, and payments are due 30 days from the date of the invoice. Finance charges at 1.5% percent or the maximum rate permitted by law, whichever is lower, will be imposed on any invoices not paid by the due date.

Our continued service on this engagement is dependent upon payment of our invoices in accordance with these terms. To the extent that certain circumstances, as listed in Appendix D, arise during this engagement, our fee estimate also may be significantly affected, and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary.

Port Authority of Guam
December 1, 2008

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Additional services provided beyond the scope of services described herein will be billed separately.

Access to Working Papers by Regulators

In accordance with the requirements of generally accepted government auditing standards, we are required to make all audit-related documents, including auditor's reports, working papers, and management letters, available to a federal agency or the Comptroller General of the United States upon their request for their regulatory oversight purposes. If such a request is made, we will inform you prior to providing such access. The working papers for this engagement are the property of D&T and constitute D&T's confidential information. We may request confidential treatment of D&T information. If we are requested to make photocopies of audit-related documents, we will maintain control over duplication of all information. The Authority hereby grants us permission to provide access to and to make and permit others to make photocopies of all audit-related documents, including auditor's reports, working papers and management letters, to representatives of the United States Government Accountability Office (GAO) or other appropriate government audit staff. D&T will require its personnel to supervise the photocopying of audit-related documents and may specify the location at which such documents may be photocopied. All professional and administrative services relating to such access (including photocopying) will be charged as an additional expense to the engagement. The working papers relating to this audit will be retained by us for a minimum of three years from the dates of the reports issued, or such longer period as required to satisfy legal and administrative requirements.

Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the Authority intends to publish or otherwise reproduce in any document our reports on the Authority's basic financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Authority agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our reports, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our reports in any such document would constitute the reissuance of our reports. The Authority also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Authority. Any request by the Authority to reissue our reports, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to the mutual agreement of the Authority and D&T at such time as D&T is engaged to perform the services and would be described in a separate engagement letter.

Other Services

D&T will also prepare draft financial statements that are based on management's chart of accounts (the "nonaudit service") as requested by you. The Authority agrees that it will comply with generally accepted government auditing standards, including, but not limited to, the following: (1) the Authority will designate a management level individual to be responsible and accountable for overseeing the nonaudit service, (2) the Authority will establish and monitor the

Port Authority of Guam
December 1, 2008

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performance of the nonaudit service to ensure that it meets management's objectives, (3) the Authority will make all decisions that involve management functions related to the nonaudit service and accept full responsibility for such decisions, and (4) the Authority will evaluate the adequacy of the nonaudit service performed and any findings that may result.

This engagement letter, including the appendices attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

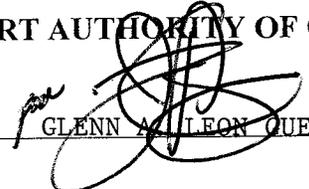
If the above terms are acceptable and the services outlined are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Very truly yours,

Deloitte + Touche LLP

ACCEPTED AND AGREED TO BY:

PORT AUTHORITY OF GUAM

By:  _____
 GLENN A. LEON QUERRERO

Title: General Manager

Date: 12-16-08

APPENDIX A**DESCRIPTION OF OUR RESPONSIBILITIES AND AN AUDIT UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, AND OMB CIRCULAR A-133**

Port Authority of Guam
Year Ending September 30, 2008

Our Responsibilities

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include:

- Forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Reporting on the scope and results of testing of the Authority's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.

The audit of the basic financial statements does not relieve management and the Board of Directors of their responsibilities.

Components of an Audit in Accordance With Generally Accepted Auditing Standards, Generally Accepted Government Auditing Standards, and OMB Circular A-133

An audit includes the following:

- Obtaining an understanding of the Authority and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements and to design the nature, timing, and extent of further audit procedures
- Consideration of 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
- Consideration of internal control and compliance over major federal programs, as a basis for determining the Authority's internal control over compliance with federal laws and other laws and regulations
- Examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements
- Inquiring directly of the Board of Directors and of Authority management regarding their views about the risk of fraud and whether the Board of Directors or the Authority management has knowledge of any fraud or suspected fraud affecting the Authority
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall basic financial statement presentation

APPENDIX A, Continued

- Determining which federal programs should be considered major programs and thus be included within the scope of the compliance audit
- Evaluating the overall presentation of the schedule of expenditures of federal awards and other supplementary information in relation to the basic financial statements taken as a whole
- Evaluating the items to be included in the schedule of findings and questioned costs and the reasonableness of the summary schedule of prior year findings
- Obtaining and reporting the views of responsible officials concerning the findings, conclusions, and recommendations, as well as their planned corrective actions
- Preparing a schedule of findings and questioned costs
- Completing the auditor prepared sections of and signing the OMB Data Collection Form that summarizes our audit findings.

We will also perform tests of the Authority's compliance with certain provisions of laws, regulations, and the provisions of contracts and grant agreements. However, it is not our objective to provide an opinion on overall compliance with those provisions and, accordingly, we will not express such an opinion.

As part of our audit of compliance with the requirements of major federal programs, we will obtain an understanding of the Authority's internal control related to administering major federal programs and we will assess risk as required by OMB Circular A-133 for the purpose of establishing the nature, timing, and extent of auditing procedures necessary for expressing an opinion concerning compliance with laws and regulations related to major federal award programs.

Generally accepted accounting principles provide for certain required supplementary information ("RSI"), such as a management's discussion and analysis, to accompany the Authority's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Authority's RSI. Those limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management will affirm to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with our procedures relating to it, we will disclaim an opinion on the RSI.

Supplementary information other than RSI, such as the schedule of expenditures of federal awards also accompanies the Authority's basic financial statements. We will subject all supplementary information that is financially oriented to the audit procedures applied in our audit of the basic financial statements and render our opinion on whether that information is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. We will disclaim an opinion on supplementary information that comprises nonaccounting information or accounting information not directly related to the basic financial statements. We will also make specific inquiries of management about supplementary information, which management will affirm to us in its representation letter.

Reasonable Assurance

We will plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud, and we will perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, because of the characteristics of fraud, a properly planned and

APPENDIX A, Continued

performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards is designed to obtain reasonable, rather than absolute, assurance that the basic financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the basic financial statements, nor is it designed to provide assurance on internal control or to identify deficiencies in internal control or to detect immaterial instances of noncompliance.

We will also plan and perform our audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that are applicable to the Authority's major federal programs could have a direct and material effect on each of its major federal programs. An audit of compliance includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

APPENDIX B**MANAGEMENT'S RESPONSIBILITIES**

Port Authority of Guam
Year Ending September 30, 2008

Financial Statements, Internal Control, and Compliance

The overall accuracy of the basic financial statements and all accompanying information and their conformity with generally accepted accounting principles is the responsibility of the Authority's management. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies.
- Establishing and maintaining effective internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.
- Designing and implementing programs and controls to prevent and detect fraud.
- Identifying and ensuring that the Authority complies with the laws and regulations applicable to its activities and the provisions of contracts or grant agreements, and informing us of any known material violations of such laws, regulations, or provisions.
- Adjusting the basic financial statements to correct material misstatements.
- Making all financial records and related information available to us.
- Taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we report.
- Having a process to track the status of audit findings and recommendations.
- Identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of our audit and the corrective actions taken to address significant findings and recommendations.
- Providing its view on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for our reports. The corrective action plan that the Authority develops for its OMB Circular A-133 reporting package may fully or partially satisfy this responsibility.
- Submitting the reporting package and OMB Data Collection Form to the Federal Audit Clearinghouse.

Representation Letters

We will make specific inquiries of the Authority's management about the representations (1) embodied in the basic financial statements and all accompanying information, (2) regarding the effectiveness of internal control, and (3) regarding the Authority's compliance with laws, regulations, and the provisions of contracts and grant agreements. Additionally, we will request that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. As part of our audit procedures, we will request that management provide us with a representation letter that includes, among other things:

- Acknowledgment of management's responsibility for the preparation of the basic financial statements, all accompanying information, and for compliance with laws and regulations applicable to federal award programs

APPENDIX B, Continued

- Acknowledgment of management’s responsibility for the design and implementation of programs and controls to prevent and detect fraud
- Affirmation of management’s knowledge of any fraud or suspected fraud affecting the Authority involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the basic financial statements
- Affirmation of management’s knowledge of any allegations of fraud or suspected fraud affecting the Authority
- Affirmation of management’s belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements.

We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that D&T will rely on in forming its opinion on the Authority’s basic financial statements. Because of the importance of management’s representations, the Authority agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

Process for Obtaining Preapproval of Services

Management is responsible for the coordination of obtaining the preapproval of the Board of Directors, in accordance with Board of Directors’s preapproval process, for any services to be provided by D&T to the Authority.

Independence Matters Relating to Providing Certain Services

In connection with our engagement, D&T and management, the Board of Directors and the Office of the Public Auditor will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. Management of the Authority will ensure that the Authority has policies and procedures in place for the purpose of ensuring that the Authority will not act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (AICPA), generally accepted government auditing standards, or other applicable rules would impair D&T’s independence. All potential services are to be discussed with Mr. Lee H. Vensel.

Independence Matters Relating to Hiring

Management will coordinate with D&T to ensure that D&T’s independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA Code of Professional Conduct that would cause a violation of the AICPA Code of Professional Conduct or other applicable independence rules. Any employment opportunities with the Authority for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Vensel before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding four paragraphs, “D&T” shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu, and its member firms; and, in all cases, any successor or assignee.

APPENDIX C**COMMUNICATIONS WITH THE BOARD OF DIRECTORS
AND THE OFFICE OF THE PUBLIC AUDITOR**

Port Authority of Guam
Year Ending September 30, 2008

Fraud and Illegal Acts

We will report directly to the Board of Directors and the OPA any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the basic financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the basic financial statements; however, we will not report such matters directly to the Board of Directors and the OPA, unless otherwise directed by the OPA.

We will inform the appropriate level of management of the Authority and determine that the Board of Directors and the OPA are adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

Internal Control Matters

In planning the audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

We will report directly to the OPA, the Board of Directors and management all significant deficiencies and material weaknesses identified during the audit as required by AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, and generally accepted government auditing standards. Our written communication will identify those matters considered by D&T to be significant deficiencies and those that are considered by D&T to be material weaknesses.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority'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 Authority's basic financial statements that is more than inconsequential will not be prevented or detected. 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 basic financial statements will not be prevented or detected.

We will also communicate certain matters to the Board of Directors, OPA and management, including our responsibilities for testing and reporting on internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements, both for our financial statement audit and our compliance audit of major federal programs.

APPENDIX C, ContinuedOther Matters

We will communicate to the Board of Directors, the OPA and management the following, if any of the following are identified during our audits: material noncompliance with laws, regulations, and provisions of contracts or grant agreements related to major programs; certain known questioned costs; fraud affecting federal awards; abuse that is material to a federal program; and other federal award audit findings as required by generally accepted government auditing standards and OMB Circular A-133.

Generally accepted auditing standards and generally accepted government auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with Authority senior management. However, we will communicate to the Board of Directors and Authority senior management matters required by AU 380, *The Auditor's Communication with those Charged with Governance*. In addition, as required by generally accepted government auditing standards, our report on internal control and on compliance and other matters will include our findings of material violations of provisions of contracts and grant agreements and material abuse.

In planning the audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

As part of our audit, we will be alert to situations or transactions that could be indicative of abuse as defined by generally accepted government auditing standards, which involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. This determination of abuse is subjective; generally accepted government auditing standards do not require us to provide reasonable assurance of detecting abuse, and we will not design the audit to detect abuse. However, if we become aware of indications of material abuse, we will apply procedures to ascertain whether abuse has occurred. Under generally accepted auditing standards and generally accepted government auditing standards, we may be required to directly report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse to outside parties.

We may also communicate to the Board of Directors, the OPA and Authority senior management on internal control, compliance, or other matters we have observed and possible ways to improve the Authority's operational efficiency and effectiveness or otherwise improve its internal control or other policies and procedures.

APPENDIX D**CIRCUMSTANCES AFFECTING TIMING AND FEE ESTIMATE**

Port Authority of Guam
Year Ending September 30, 2008

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates or our fee estimate. As a result, changes to the fees may be necessary. Such circumstances include but are not limited to the following:

Audit Facilitation

1. Changes to the timing of the engagement at the Authority's request. Changes to the timing of the engagement usually require reassignment of personnel used by D&T in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&T may incur significant unanticipated costs.
2. All audit schedules are not (a) provided by the Authority on the date requested, (b) completed in a format acceptable to D&T, (c) mathematically correct, or (d) in agreement with the appropriate Authority records (e.g., general ledger accounts). D&T will provide the Authority with a separate listing of required schedules, information requests, and the dates such items are needed.
3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).
4. Deterioration in the quality of the Authority's accounting records during the current-year engagement in comparison with the prior-year engagement.
5. A completed trial balance, referenced to the supporting analyses and schedules and basic financial statements, is not provided timely by the Authority's personnel.
6. Draft basic financial statements with appropriate supporting documentation are not prepared accurately and timely by the Authority's personnel.
7. Electronic files in an appropriate format and containing the information requested are not provided by the Authority on the date requested for our use in performing file interrogation. D&T will provide the Authority with a separate listing of the required files and the dates the files are needed.
8. The engagement team, while performing work on the Authority's premises, is not provided with access to the Internet via the Authority's existing network for purposes of conducting the engagement.

Significant Issues or Changes

9. Significant deficiencies or material weaknesses in the design or operating effectiveness of the Authority's internal control over financial reporting or internal control over federal programs are identified during our audit that result in the expansion of our audit procedures.
10. A significant level of proposed audit adjustments is identified during our audit.

APPENDIX D, Continued

11. A significant number of drafts of the basic financial statements are submitted for our review, or we identify a significant level of deficiencies in the draft basic financial statements.
12. Significant new issues or changes as follows:
 - a. Significant new accounting issues
 - b. Significant changes in accounting policies or practices from those used in prior years
 - c. Significant events or transactions not contemplated in our budgets
 - d. Significant changes in the Authority's financial reporting process or Information Technology systems
 - e. Significant changes in the Authority's accounting personnel, their responsibilities, or their availability
 - f. Significant changes in auditing standards
 - g. Significant changes in the Authority's use of specialists, or the specialists or their work product does not meet the qualifications required by generally accepted auditing standards for our reliance upon their work.
13. Changes in audit scope caused by events that are beyond our control.

Payment for Services Rendered

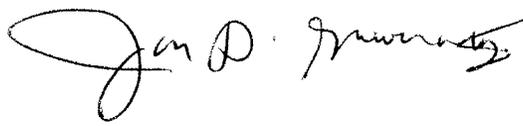
14. Without limiting its rights or remedies, D&T may halt or terminate its services entirely if payment is not received within 30 days of the date of the invoice.

RECORDED AUDIT ADJUSTMENTS

	Assets	Liabilities	Equity	Profit & Loss
DR A/R Trade DR Revenues CR Expenses To record credit memo	(98,000)			98,241 (241)
DR A/R Trade CR PAG/Shell Manager's Fee To record Shell maintenance fee from FY03-Apr08	134,000			(134,000)
DR Allowance for doubtful accounts CR Bad debt expense To adjust allowance for bad debt	(32,623)			32,623
DR CIP CR Professional fees To capitalize master plan coists	173,333			(173,333)
DR CIP CR Professional fees To capitalize 2007 payments of master plan costs	120,000			(120,000)
DR Unfunded liability for retirement contributions CR Benefits Government contribution expense To adjust unfunded liability for retirement contributions		272,305		(272,305)
DR Professional fees CR CIP To expense financial feasibility study costs	(266,666)			266,666
DR A/R Trade CR Federal revenues To record unrecorded federal revenues	153,563			(153,563)

Concurrence:

I have reviewed the adjustments above and authorize that they be recorded in the general ledger as of September 30, 2008. The adjustments are results of errors and not results of fraud or illegal acts.

 2/2/09

JOSE B. GUEVARA III
FINANCIAL AFFAIRS CONTROLLER

UNRECORDED AUDIT ADJUSTMENTS

	Assets	Liabilities	Equity	Profit & Loss
DR Expense – outside labor CR CIP To adjust CIP for over capitalization of gantry 3 costs	(31,547)			31,547
DR Accumulated depreciation CR Fixed asset cost DR Loss from asset disposal To write off assets no longer operable	60,359 (134,199)			73,840
TOTAL KNOWN MISSTATEMENTS	(105,387)	0	0	105,387
TOTAL MISSTATEMENTS	(105,387)	0	0	105,387



FELIX P. CAMACHO
Governor of Guam

MICHAEL W. CRUZ
Lieutenant Governor

PORT AUTHORITY OF GUAM
ATURIDAT I PUETTON GUAHAN
Jose D. Leon Guerrero Commercial Port
GOVERNMENT OF GUAM

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Webpage: www.portofguam.com

January 26, 2009

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

Gentlemen:

We are providing this letter in connection with your audits of the financial statements of the Port Authority of Guam (the Port), as of September 30, 2008 and 2007 and for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and changes in net assets, and cash flows of the Port in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, results of operations and change in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and supplemental schedules accompanying the financial statements that are presented for the purpose of additional analysis of the financial statements
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards
- d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

APPENDIX D, CONTINUED

- a. Net asset components (invested in capital assets, and unrestricted) are properly classified and approved.
 - b. Expenses have been appropriately classified in or allocated to functions in the statement of activities, and allocations have been made on a reasonable basis.
 - c. Revenues are appropriately classified in the statement of revenues, expenses and changes in net assets within operating revenues, or capital contributions.
 - d. Capital assets are properly capitalized, reported, and depreciated.
 - e. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Port has made available to you all:
- a. Summaries of actions of the board of directors of the Port.
 - b. Records and related data for all financial transactions of the Port and for all funds administered by the Port. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Port and provide the audit trail to be used in a review of accountability. Information presented in financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
- a. Action taken by Port management that contravenes the provisions of federal laws and Guam laws and regulations or of contracts and grants applicable to the Port.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended December 31, 2007 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. We have no knowledge of any fraud or suspected fraud affecting the Port involving (a) management, (b) employees who have significant roles in internal control over financial

APPENDIX D, CONTINUED

- reporting, or (c) others if the fraud could have a material effect on the financial statements.
7. The Port has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in the Entity and do not believe that the financial statements are materially misstated as a result of fraud.
 8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Port received in communications from employees, former employees, analysts, regulators, short sellers, or others.
 9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (“FASB”) Statement No. 5, *Accounting for Contingencies*.
 10. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
 11. We are responsible for the compliance with Guam and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Port’s operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Port is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
 12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
 13. We have:
 - a. Complied, in all material respects, with the requirements identified above in connection with federal awards.
 - b. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 14. Management has identified and disclosed to you all laws and regulations that have a direct and

APPENDIX D, CONTINUED

material effect on the determination of financial statement amounts.

15. We believe that internal control over the receipt and recording of contributions is adequate.
16. We have included in the financial statements all assets and liabilities under the Entity's control.

Except where otherwise stated below, matters less than \$90,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

17. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
18. The Port has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
19. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Guarantees, whether written or oral, under which the Port is contingently liable.
 - b. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
20. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
21. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their net realizable value.
22. The Port is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
23. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Port and do not include any items consigned to it, or any items for which the liability has not been recorded.

APPENDIX D, CONTINUED

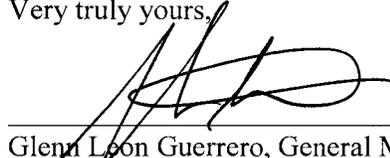
24. We represent to you that, subsequent to September 30, 2008, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).
25. We have no intention of terminating our pension plans or taking any other action that could result in an effective termination or reportable event for either of the plans. We are not aware of any occurrences that could result in the termination of our pension plans to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
26. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.
27. The Port has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
28. The Port has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
29. No events have occurred subsequent to September 30, 2008 to the date of our signatures below that require consideration as adjustments to or disclosures in the financial statements.
30. As of September 30, 2008, the Port accrued \$3,513,912 for future earthquake repairs and \$261,682 for future typhoon repairs. These accruals represent our best estimate of the costs to be incurred to complete the earthquake and typhoon repairs.
31. During fiscal year 2008, the Port implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Government of Guam has determined that the implementation of this Statement does not have a material effect on the financial statements of the Government or any of its component units.
32. During fiscal year 2008, the Port implemented GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues* which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Management does not believe that the implementation of this Statement had a material effect on the financial statements of the Port.

APPENDIX D, CONTINUED

33. During fiscal year 2008, the Port implemented GASB Statement No. 50 *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. Management does not believe that the implementation of this Statement had a material effect on the financial statements of the Port.
34. In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Port.
35. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Port.
36. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Port.
37. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Port.
38. The Port has obligated, expended, received, and used public funds of the Government of Guam and Federal Government in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law, except for matters disclosed.
39. Money or similar assets handled by the Port on behalf of the Government of Guam or Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law.
40. At September 30, 2008, the Port has approximately \$1.5 million in feasibility and environmental impact study costs pertaining to the potential usage of the deep draft wharf. They also have approximately \$277,000 and \$255,000 in consulting fees relating to the Master Plan and the

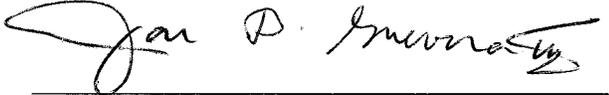
procurement of a 50 gauge gantry crane, respectively. Port management is of the belief that these costs will bring benefit to the Port at some point in time on future projects and that these costs are properly capitalized and not impaired.

Very truly yours,



Glenn Leon Guerrero, General Manager

1/30/09
Date



Jose B. Guevara, III, Financial Affairs Controller

2/2/09
Date

APPENDIX D, CONTINUED
APPENDIX A

	Assets	Liabilities	Fund Balance	Revenues / Expenditures
PAJE(2) DR Expense - Outside Labor CR CIP To properly state CIP for over capitalization of maintenance work on the Gantry 3 Corrosion handrails, Walkway Grid & Machine House project.	(31,547)			31,547
PAJE(3) DR Accumulated depreciation CR Cost CR Loss from asset disposal To write off assets no longer operable.	60,359 (134,199)			73,840
Total Appendix A	<u>(105,387)</u>	0	0	<u>105,387</u>

APPENDIX B

	Assets	Liabilities	Fund Balance	Revenues / Expenditures
PAJE(1) DR Federal revenues CR A/R To reverse federal receivables for the fender installation received in 2005.	(46,583)			46,583
PAJE(4) CR Thruput revenue DR Maintenance fee DR A/R CR Beginning retained earnings To reflect Shell backbilling of undercharged thruport charges from FY2003-FY2007 and related unrecorded/unpaid maintenance fee in the proper period.	343,463		(284,836)	(82,627) 24,000
Total Appendix B	<u>296,880</u>	0	<u>(284,836)</u>	<u>(12,044)</u>

Grand Total	<u>191,493</u>	0	<u>(284,836)</u>	<u>93,343</u>
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CONCURRED

Jose B. Guevara III 2/3/09

 JOSE B. GUEVARA III
 FINANCIAL AFFAIRS CONTROLLER

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

Finding Number 1 – Computer Data Security

Comment: Through their computer log-ons, two accounting personnel have the ability to access computer application programs and data that is outside of their areas of responsibility.

Recommendation: Personnel should only be able to access computer programs and data directly related to their areas of responsibility or authority. User access should be tested periodically to ensure access is appropriately limited to areas of responsibility or authority.

SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving the Authority's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

Finding Number 2 – Procurement Staff

Comment: Certain Authority employees have been detailed to the Government of Guam General Services Agency (GSA) to be trained on procurement policies and procedures for more than a year. GSA has not provided a formal documented training program for the employees and a date for the employees' return to the Authority has not been determined.

Recommendation: An employee training program should be established that includes training goals and an agreed date for the employees to return to the Authority.

Finding Number 3 – Vendor Invoices

Comment: Certain maintenance performed on the Gantry 3 Corrosion Handrails, Walkway Grid & Machine House project completed in prior years were not recorded in the proper period due to late receipt of a vendor invoice.

Recommendation: Closer monitoring of maintenance work and follow up of related invoices should be performed for timely recordation of related expenses.

Finding Number 4 – Procurement

Comment:

- a) One or more documents (ex. requisition, purchase order, vendor invoice, etc.) for six of 30 items could not be located
- b) One of 30 selections represented an expired contract that was extended through a memorandum at management's discretion.
- c) The department head signed the purchase requisition after the certification of funds was performed for nine of the selections.

Finding Number 4 – Procurement, Continued

Recommendation: Documents for procurements should be maintained to support related transactions and to ensure compliance with procurement laws. Additionally, contracts should be reviewed for timely processing of bids to properly secure new contracts in accordance with procurement laws. Further, though no loss was incurred, documents should be processed in accordance with the standard operating procedures for procurement.

Finding Number 5 – Leases

Comment: Leasing is a significant source of revenue for the Authority. A lease was not invoiced on a monthly basis resulting in recognition of revenues in the incorrect period. Additionally, the lease schedule and certain lease agreements were not readily available for testing, while certain leases did not have all the appropriate signatures.

Recommendation: Leases should be closely monitored to ensure invoicing on a monthly basis and to ensure that all terms of leases including escalation clauses and renewal options are enforced.

Finding Number 6 – Leases

Comment: The Authority leases property under an operating lease with ten year options for the lessee company to extend with escalating rentals based on the appraisal value of the property at the time of extension, with a minimum rental escalation of 10%. The Authority failed to perform the appraisal of the property at the extension date and also verbally agreed to forego the minimum 10% escalation spelled out in the lease.

Recommendation: In accordance with the lease agreement, an appraisal should be timely obtained to ensure rent is equitable. Lease alterations and other agreements should be documented in writing. An annual review of all leases should be performed to ensure that renewals are promptly negotiated and that terminating leases are either renewed or put out for bid.

Finding Number 7 – Emergency Procurement

Comment: The Authority entered into a Memorandum of Agreement (MOA) for equipment repair and maintenance services on July 3, 2003. The MOA was negotiated under an emergency procurement. Services continue to be rendered based on this Agreement.

Recommendation: As the emergency conditions of the July 3, 2003 MOA have been addressed, the Authority should undertake another bidding process to satisfy future repairs and maintenance on related equipment.

Finding Number 8 – Federal Expenditures

Comment: The Port's ability to determine total Federal expenditures at any given time is not optimized. Transactions that flow through the expenditure cycle are identified with account numbers that indicate a Federal funding source. However, transactions that flow through the fixed asset cycle are not similarly identified. Therefore, a simple query of the financial management system will not produce a comprehensive schedule of Federal expenditures.

Recommendation: The Port should consider designing an account numbering structure that identifies all Federally-funded capital acquisitions as Federal expenditures.

SECTION III – DEFINITION

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

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 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 is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.