

January 22, 2008

Board of Directors
Port Authority of Guam:

Gentlemen:

In planning and performing our audit of the financial statements of Port Authority of Guam (the Authority) for the year ended September 30, 2007, on which we have issued our report dated January 22, 2008, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes 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.

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.

We developed the following recommendations concerning control deficiencies and other matters related to its internal control.

Control Deficiency:

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.

Other Internal Control Matters:

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 – Fixed Assets

Comment: Two of ten fixed asset disposals tested were identified as unlocatable. The Authority was unable to determine whether they were previously surveyed. The Authority recorded a loss of \$33,766 as a result of the write-off of these assets.

Recommendation: Periodic fixed asset inventories should be performed and related asset listings maintained.

Finding Number 4 – Inventory Allowance

Comment: There is no established methodology for determining the inventory obsolescence allowance.

Recommendation: An inventory allowance policy should be established and consistently applied.

Finding Number 5 – Authorization Over Purchase Requisitions

Comment: Twelve of thirty purchase requisitions tested did not evidence authorized signatures.

Recommendation: Established procurement procedures should be consistently adhered to.

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 – Blanket Purchase Orders

Comment: It is the Authority's policy that blanket purchase orders be closed out at the earlier of the date the committed funds are exhausted or at fiscal year end.

The Authority did not close out eight open blanket purchase orders at fiscal year end.

Recommendation: The Authority should comply with its policy to close open blanket purchase orders at year end.

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

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

Very truly yours,

Deloitte & Touche LLP