

Management Letter

**Guam International Airport Authority**

*For the year ended September 30, 2006*

The Board of Directors  
Guam International Airport Authority

In the planning and performing our audit of the financial statements of the Guam International Airport Authority (the "Authority") for the year ended September 30, 2006, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an 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.

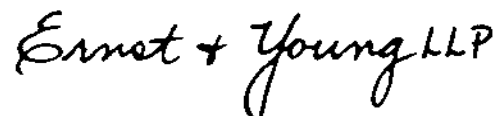
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Findings 2006-1 to 2006-5 in the following pages came to our attention that we believe merit your consideration. Some are repeat comments from our prior year management letter.

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This report is intended for the information of the Board of Directors and Management of the Authority, and is not intended to be, and should not be, used by anyone other than those specified parties.



January 9, 2007

# Guam International Airport Authority

## Management Letter, continued

### **Finding Number 2006-1 Accounts Receivable – Guam Police Department**

#### Criteria:

Documentations and/or agreements should be maintained to support balances recorded in the general ledger. *(Note: See Finding Number 2005-1 in prior year's management letter dated December 2, 2005)*

#### Condition:

Our accounts receivable confirmation procedures revealed a difference of \$840,844 from the Guam Police Department (“GPD”). This difference pertains to a dispute of the monetary rent due from GPD as per the lease agreement between the Authority and GPD.

#### Cause:

In GPD's letter dated April 28, 2006, addressed to Attorney David Mair, the Authority's legal representative, GPD claimed that no monetary rent should be assessed by the Authority. GPD asserts that their lease with the Authority does not require lease payments. However, the Authority does not agree with GPD's assertion.

#### Effect:

The receivable from GPD is long outstanding and ultimate collection might be questionable.

#### Recommendation:

We recommend that the Authority maintain all pertinent documents to support amounts recorded in the general ledger. Correspondences between the Authority and its tenants should be reviewed and replied to in a timely basis. We also recommend that the Authority immediately address any delays in receiving scheduled rental payments.

#### Auditee Response:

The Authority is currently negotiating with GPD to address (1) outstanding payments and (2) GPD's continued occupancy on the Authority's property. A draft note has been prepared and will be submitted to GPD in short order. In addition, the Authority is also negotiating with GPD a rent adjustment for costs of repair and/or improvements made by GPD to the facility. These final adjustments will be made upon receipt of documents supporting the costs and work effort related to the Authority's facilities in which they occupy.

# Guam International Airport Authority

## Management Letter, continued

### **Finding Number 2006-2** **Accounts Payable**

#### Criteria:

Differences resulting from accounts payable vendor reconciliations should be investigated and resolved.

#### Condition:

Our accounts payable confirmation procedures revealed a difference of \$266,447 from J&B Modern Tech. We also noted immaterial differences from two other vendors.

#### Cause:

It appears the Authority is not resolving differences with its vendors. Furthermore, some invoices that are approved for payment by the Operations Department are not forwarded to the Accounting Department in a timely manner.

#### Effect:

The accounts payable balances might be misstated.

#### Recommendation:

The Authority should reconcile the accounts payable balances in a timely basis and any significant difference should be resolved. In addition, we recommend that all invoices, whether approved for payment or not, be forwarded to the Accounting Department. Communication between departments regarding open invoices should be improved.

#### Auditee Response:

The Authority does reconcile vendor invoices or statements before payments are processed. However, upon reviewing the files of J&B, no statements were provided to reconcile any outstanding debt. In addition, prior to closing the fiscal year the Divisions were informed to reconcile and contact vendors for any outstanding invoices at year-end.

In the case of J&B, the Authority showed no records of outstanding invoices until the audit when confirmation was mailed. Upon review of the invoices, invoices were dating to 2002. Several of the invoices were significant amounts. The Authority was not informed on these outstanding invoices.

The Authority did not record the invoices as these invoices are from prior years.

# Guam International Airport Authority

## Management Letter, continued

### Finding Number 2006-3

#### Custom Fees

Criteria:

- a) Under Public Law (PL) 23-45, the Authority assess 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 and Quarantine (“C&QA”) Agency Services Fund. *(Note: See Finding Number 2005-5 in prior year’s management letter dated December 2, 2005)*
  
- b) The remittance of custom fees from the Custom Facilities Charges (“CFC”) account to the Customs and Quarantine (“C&QA”) Agency Services Fund should be properly supported.

Condition:

- a) Our audit procedures revealed that the Authority did not make timely remittances to the TOG as summarized below:

	<b>Month</b>	<b>Airline</b>	<b>Amount</b>	<b>Date of Deposit</b>	<b>Date of Remittance</b>	<b>Number of Days</b>
1)	December-05	Northwest Airlines	\$ 87,196	12/23/06	12/30/06	7
2)	February-06	Japan Airlines	168,667	02/01/06	02/10/06	9
3)	March-06	Japan Airlines	171,211	03/22/06	03/31/06	9
4)	April-06	Curves International	19	04/03/06	04/21/06	18
		Omni Air Int’l	4,942	04/10/06	04/21/06	11
		All Nippon Airways	41,372	03/24/06	04/21/06	28
		Guam Flight Services	57	03/22/06	04/21/06	30
		ACI, Pacific	25	03/22/06	04/21/06	30
5)	May-06	CMI	240,408	04/26/06	05/03/06	7
6)	June-06	Taga Air Charter	19	05/26/06	06/02/06	7
		Service				
		All Nippon Airways	33,842	05/24/06	06/02/06	9
7)	July-06	Japan Airlines	120,236	07/05/06	07/14/06	9
8)	August-06	Japan Airlines	123,365	08/03/06	08/11/06	8
		Omni Air Int’l	1,234	07/17/06	08/11/06	25
		All Nippon Airways	30,668	07/24/06	08/11/06	18
9)	September-06	Philippine Airlines	7,708	08/30/06	09/15/06	16
		Japan Airlines	153,117	08/30/06	09/15/06	16

# Guam International Airport Authority

## Management Letter, continued

### **Finding Number 2006-3, continued** **Custom Fees**

#### Condition, continued:

- b) We noted that custom payments made by airlines are sometimes made using one check for several fees such as the (1) custom fees and (2) landing and parking fees. The check is deposited into the general revenue bank account and is later transferred to the custom fees bank account. The Authority would then remit the fees from the customs bank account to the Customs and Quarantine fund account, however, we noted that the source of the funds (i.e. the specific airline) are not easily identifiable.

#### Cause:

- a) The reason for this is unknown.
- b) It appears that the Authority does not maintain sufficient support for custom fees payments that are combined with landing and parking fee payments.

#### Effect:

- a) The Authority did not comply with the requirements of PL 23-45.
- b) This might result in untimely remittances to the C&QA Services Fund and make accounting for the remittance more difficult.

#### Recommendation:

- a) We recommend that the Authority remit collections from carriers to the TOG within five days of receipt, in accordance with the requirements of PL 23-45.
- b) We recommend that the Authority improve its monitoring of the payments made by the airlines for custom fees. If payments are made in bulk, then a summary of the breakdown should be filed with each fund transfer, both from (1) the general revenue account to the CFC account and from (2) the CFC account to the C&QA Services Fund.

#### Auditee Response:

The Authority has suggested to carriers to make separate payments by invoice, including custom fees payments; however the majority of carriers have continued to send combined payments in one check or wire transfer for cost saving measures. These payments are normally deposited into the Revenue Accounts – BoH/BoG requiring the movement of funds from either account to the Custom Fees Account resulting in an untimely remittance due to passage of time in order for checks to clear or transfers recorded before money is actually remitted to Customs & Quarantine Agency (C&QA) Account.

In prior years, the Authority had difficulty receiving payments for rent from C&QA; thus accumulating a large receivable balance. In order to eliminate this same problem, through the direction, custom fees were withheld from remittance to Department of Administration to offset rent due from these receipts. The remaining balance is then remitted to C&QA.

Guam International Airport Authority

Management Letter, continued

**Finding Number 2006-3, continued**  
**Custom Fees**

Auditee Response, continued:

The Authority will continue to retain receipts in CFC cash account to offset unpaid rent. In addition, the Authority issued a reminder letter to carriers to remit custom fees payments directly to the Authority's C&QA Fund Account.

# Guam International Airport Authority

## Management Letter, continued

### **Finding Number 2006-4 Deferred Revenue**

#### Criteria:

- a) Deferred revenues normally represent advance payments received for future billing periods. *(Note: See Finding Number 2005-11 in prior year's management letter dated December 2, 2005)*
- b) Documentation should exist to support the amount of revenues recorded in the accounting period.

#### Condition:

- a) Cape Air made two large payments without indicating which invoices they should be applied to. After off-setting the payment toward open accounts receivable balances, \$149,172 remained in deferred revenue.
- b) We noted that the Authority made adjustments to arrival and immigration fees in the amounts of \$74,701 and \$12,473, respectively. We also noted that a portion of the adjustments pertained to transactions that occurred during July through September 2005.

#### Cause:

- a) It appears the Authority does not verify overpayment amounts with customers in order to ensure accurate allocation of payment to invoiced amounts.
- b) This adjustment was due to the untimely submission of the Traffic Information/Passenger Data report by Cape Air.

#### Effect:

- a) The overpayments continue to be recorded as deferred revenues until such time the invoice discrepancies are resolved.
- b) Revenues are not recorded in the proper accounting period.

#### Recommendation:

- a) We recommend that the Authority resolve the invoice discrepancies with customers in a timely manner. In addition, the Accounting Department should be provided with a copy of any revisions made to contracts/agreements to ensure proper and timely billings.
- b) We recommend that the Authority revisit the agreements with the airlines and enforce the policy, if any, regarding the timeliness of the submission of reports.

#### Auditee Response:

As part of the process, the Authority did contact Cape Air of their overpayments. However, the local representative referred the matter to an off-island representative since payments are handled off-island.



# Guam International Airport Authority

## Management Letter, continued

### **Finding Number 2006-4, continued** **Deferred Revenue**

#### Auditee Response, continued:

Cape Air is aware of the due date of the traffic report per the operating permit. However, Continental Airlines is Cape Air's ground handler. Continental Airlines prepares the report and sends the report to the representative off-island for review.

The Authority is in constant communication and to date we have not received any responses. The Authority will continue communication both local and off island representative to resolve the issues.

# Guam International Airport Authority

## Management Letter, continued

### **Finding Number 2006-5** **Lease Agreements**

#### Criteria:

Lease agreements should be renewed in a timely basis, be properly documented, and signed by all parties.

#### Condition:

We noted the ground rent and system rent agreements between the Authority and Aircraft Services Int'l, Inc., formerly: Airport Group International, contained neither a specified date of commencement nor a date of expiration. The agreement was signed and notarized on August 19, 1978. We inferred from the payment terms stated in Article V of the agreement that the parties agreed upon four five-year periods, thus a twenty-year term expiring on or shortly after August 19, 1998. To date, no extension/renewal agreement has been finalized.

#### Cause:

It appears the Authority is not renewing/extending lease agreements in a timely manner.

#### Effect:

Disputes may arise between the parties over rental terms.

#### Recommendation:

The Authority should renew and obtain finalized copies of lease agreements in a timely manner.

#### Auditee Response:

The referenced agreement with Aircraft Services Int'l, Inc. covers the operation and maintenance of the Authority's fuel farm under a special facility fueling system lease and operating agreement. The Agreement was further extended in August 2000 and has continued on an interim arrangement pending further consideration with the Signatory Airlines on the method of operation and possibly operated thru an airline consortium. The Authority will work closely with the carriers to put closure on this issue or otherwise solicit proposals for a new contract.