Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646-3884
Fax: +1 671 649-4932
www.deloitte.com

March 15, 2005

CONFIDENTIAL

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, 2004, on which we have issued our report dated March 15, 2005, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

Finding No. 1 – Accounts Receivable - Trade

Criteria: Cash receipts from customers should be properly applied against the respective invoices being paid.

Condition: The accounts receivable aging includes accounts with credit balances amounting to $144,292. Of seven credit balances tested, six appeared to result from payments not properly applied against the respective invoices while one was for an advance rental payment improperly coded as a credit to accounts receivable trade.

Cause: The cause of this condition is improper matching of receipts against billed amounts.

Effect: There appears to be an immaterial misstatement of the accounts receivable account balance.

Recommendation: The Authority should ensure that all services rendered are properly billed. A matching of amounts received to the related invoices should occur on a regular basis.

Auditee Response: The Port Authority concurs that all services should be properly billed.

Customers that are on cash basis must pay in advance for the services being requested plus an additional 20 percent of the estimated charge. If the operations' log for the services rendered are not submitted in a timely manner, the invoice billing will be captured in the subsequent billing period. In this case, this will result in the customer having a credit balance reflected on their account until the services have been billed.

Credit balances representing advances from the main agents will be reclassified as liability account at fiscal year end and will reverse the following month when the revenue is realized.

PAG billing personnel will follow up regularly with Operations to get the information needed to bill the customer and apply payments received before the fiscal year ends. This procedure will be incorporated in the Fiscal Year Close-Out plan and schedule.

Finding No. 2 – Revenue

Criteria: Invoices should be accurately calculated and recorded.

Condition: Of 26 samples tested within the Authority's revenue account, 10 had an inconsistent system that rounds calculation errors when computing labor charges. In addition, one invoice had transshipment charges included when calculating the discount.

Cause: It appears that the JD Edwards system is inconsistently computing labor charges and discounts on invoices.

Effect: There is a potential immaterial misstatement of the Authority's revenue account.

Recommendation: The Authority should establish, implement and monitor a policy over periodic reviews of customer invoices and the accuracy of the postings to the general ledger to ensure the accuracy of reported revenues and completeness of customer invoices. Management should ensure data entry is adequately scrutinized by individual(s) other than the person making the data entry and such reviews are properly documented. Furthermore, management should consider the integration of the billing system process with the vessel operation process to reduce manual input and allow billing personnel more time to check the propriety of billings.

Auditee Response: The Authority agrees that a thorough review should be done on invoices that deal with labor charges and discounts. It is the procedure of our Billing Section that the Accounting Technician Supervisor reviews all invoices. The discounts were not properly computed when there was a change in one of the tariff rates in the system.

However, since the miscalculation was realized, our Information Technology Division has corrected the billing system.

After the details of each invoice have been reviewed, Accounting reviews the accuracy of the information that is uploaded to the JD Edwards system.

Finding No. 3 – Revenue

Criteria: Invoices should be generated using authorized terms and prices and should be accurately calculated.

Condition: Of 26 samples tested within the Authority's revenue account, 1 had overtime rates charged when computing labor charges.

Cause: It appears that the wrong labor rate was used when generating the invoice.

Effect: There is a potential immaterial misstatement of the Authority's revenue account.

Recommendation: We recommend a review of the rates used when generating invoices.

Auditee Response: We concur that the labor rates should be reviewed when generating invoices. Of the 26 samples tested, there was one invoice wherein Billing personnel included the code for overtime differential. An internal memo is being prepared by PAG Finance to clarify interpretation of the tariff labor rates as a guideline for the Billing technicians to follow. The Accounting Technician Supervisor will review these charges before the invoice is printed.

Finding No. 4 – Overtime Analysis – Daily Hours

Criteria: Proper documentation is recommended to support activities other than job duties.

Condition:

1. Employees' overtime hours exceeded 16 hours on weekdays 11 times during the year.
2. Employees' overtime hours were 10 to 16 hours on a weekday 651 times during the year.

Cause: Certain key areas at the Authority may be understaffed.

Effect: There is no known impact on the financial statements resulting from this condition. However, the Authority may be incurring excessive overtime costs.

Recommendation: We recommend an analysis of overtime hours by management to determine if staffing patterns require adjustment.

Auditee Response: PAG concurs that a stronger implementation of periodic review of overtime hours by management has to be done. In FY 2005, management instituted a budget policy wherein each overtime request must be accompanied by a memorandum from the division head discussing the reason for the overtime work and to describe work done during the beginning of the workweek. The overtime request must also include the roster of employees with the same classification and their schedule for the whole week.

The demand from the shipping agents and customers for efficient service, employees who left government service in FY 03 and FY 04, provisions of public law 27-05 to reduce annual leave from 480 hours to 320 hours and the requirements of the port security plan were all factors in FY 04 for the increase in employees' overtime hours.

Finding No. 5 – Depreciation

Criteria: Accurate related depreciation/accumulated depreciation listings should be maintained.

Condition: The subsidiary ledger for fixed assets and related depreciation accounts did not agree to the general ledger by immaterial amounts as follows:

	Subledger over (under) general ledger
Fixed assets cost	$ 997
Depreciation expense	$ (54,663)

It was also noted that the depreciation expense calculation is done manually through an Excel format instead of using the capability of the fixed assets module in the JD Edwards system.

Cause: This condition may simply be a case of improper period cut off due to the inability of the fixed assets system to process beginning balance adjustments of accumulated depreciation in the correct year.

Effect: The effect may be an immaterial misstatement of the related account balances.

Finding No. 5 – Depreciation, Continued

Recommendation: We recommend that the Authority take steps to reconfigure the calculation of depreciation expense under the fixed assets module of the JD Edwards system and fully utilize the capability of the fixed assets module.

Auditee Response: The Port agrees to take steps to reconfigure the calculation of depreciation expense under the fixed assets module of the JD Edwards system and fully utilize the capability of the fixed assets module.

The monthly depreciation for certain assets in the JD Edwards system did not match with the Auditor's schedule for monthly depreciation. In FY 05, Accounting revised the Life Months field in the JDE system to compute the correct monthly depreciation. To give us the correct depreciation expense, the total cost of the asset divided by the Audit monthly depreciation will give the number of life months. We have tested the system's depreciation expense starting on January of 2005 and it has resulted in the correct amount. Depreciation expense will now be system generated coming from the fixed assets module of the JD Edwards system.

* * * * * * * * * *

This report is intended solely for the information and use of the Board of Directors and management of the Port Authority 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