



Management Letter

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

For the year ended September 30, 2012

Ernst & Young LLP

January 29, 2013

The Board of Directors
Antonio B. Won Pat International Airport
Authority, Guam

In planning and performing our audit of the financial statements of Antonio B. Won Pat International Airport Authority, Guam (the Authority) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control, as described above, and other matters:

Formal Policy to Identify Accounts Requiring an Allowance

Condition:

The Authority does not have a written policy, that can be referred to, that describes how allowances for doubtful accounts are measured. It is our understanding that an estimate of the allowance is performed at year-end and is provided as a post-closing adjusting entry.

Recommendation:

We recommend that the Authority create a written policy to describe the process that should be performed in determining the allowance for doubtful accounts. This policy should be in accordance with the expectations of management. The Authority should also document the explanations for the amounts written off (i.e. if a customer has a court settlement or if a payment plan has been established). This process should be performed on a timelier basis.

Work In Progress Close Outs

Condition:

The Authority continues to have issues in tracking the progress of its projects. Specifically, certain completed projects are not timely reclassified out of the work-in-progress general ledger account into a placed in service capital asset category. As a result, we noted depreciation expense of approximately \$119,000 was not properly recorded by the Authority.

Capitalization of fixed assets that are placed in service should be recorded on a timely basis. This would allow for the timely commencement of depreciation and its recognition in the proper accounting period.

Recommendation:

We recommend that the Authority maintain a work-in-progress control log that would be used to track the various projects and their status. Additionally, the accounting department should consider reviewing the percentage of completion of projects, as noted in the invoices received from contractors and inquire with the engineering department to ensure all completed projects are accounted for. Review of completed projects should, at the least, be done semi-annually.

Maintenance of Annual Leave Schedule and Supporting Documents

Condition:

We noted the Authority continues to have delays in the preparation of annual leave worksheets and the availability of related documents. We understand that the preparation of the annual leave worksheets is only performed at the end of the year.

Recommendation:

To ensure timely verification of accrued annual leave and accuracy of information, we recommend the Authority perform regular updates on its annual leave worksheets, at least on a semi-annual basis. To protect the integrity of the annual leave schedule worksheets, the Authority should consider checking the formulas used and locking the Excel file so that only certain data can be entered. This would also help the Authority minimize workloads at the end of the year and would facilitate early detection of potential errors.

Customs Fees

Condition:

Under Public Law 23-45, the Authority assesses and collects from air carriers, fees for customs and agricultural inspection services rendered at the terminal. The air carriers are required to remit these fees to the Authority within 30 days from collection; otherwise a 10% interest should be levied to the air carrier. The Authority is required to remit all collections, within five days of receipt, to the Treasurer of Guam (TOG) for deposit to the Customs, Agriculture and Quarantine Services Fund.

We noted the following delays in collection of fees from air carriers:

Air Carrier	Amount	Invoice Date	Date of Receipt	No. of Days
6580	\$ 22,800	09/15/11	10/31/11	46
6404	11,549	11/18/11	12/29/11	41
6404	13,546	12/28/11	01/30/12	33
6404	18,183	05/18/12	07/09/12	52
6404	16,237	06/13/12	08/03/12	51
6580	18,914	07/13/12	09/10/12	59

The aforementioned air carriers missed the 30-day deadline to remit customs fees to the Authority. However, no interest was charged to these air carriers.

We also noted the following delays in remittances of fees to TOG:

Month	Air Carrier	Amount	Date of Receipt	Date of Remittance	No. of Days
Nov-2011	6002	\$ 39,005	10/26/11	11/04/11	9
	6367	92,824	10/27/11	11/04/11	8
	6984	27,354	10/27/11	11/04/11	8
Dec-2011	6984	28,111	11/29/11	12/15/11	16
	6367	69,845	11/30/11	12/15/11	15
	6005	132,726	12/05/11	12/15/11	10
	6248	12,968	12/01/11	12/15/11	14
Jan-2012	6404	11,549	12/29/11	01/13/12	15
	6984	29,656	01/03/12	01/13/12	10
Apr-2012	6141	10,474	03/26/12	04/02/12	7
	6248	14,227	03/26/12	04/02/12	7
	6984	32,028	03/27/12	04/02/12	6
Jul-2012	6404	18,183	07/09/12	07/27/12	18
	6002	38,090	07/18/12	07/27/12	9

Customs Fees, continued

Condition, continued:

The Authority missed the five-day deadline to remit customs fees. The combined Customs Fees and Landing and Parking payments made by the air carriers are deposited directly to the Authority's General Revenue Funds. The Customs Fees are then segregated and transferred to the Customs Facilities Charges account.

Recommendation:

The Authority should continue its efforts to reduce or eliminate delays and remit collections from air carriers to the TOG within five (5) days of receipt, in accordance with the requirements of PL 23-45. We recommend that the Authority and the Director of the Customs & Quarantine Agency make a determination as to who will levy the 10% interest on air carriers that do not remit the fees within the 30-day prescribed period.

Reiteration of previous year's comments and recommendations:

Cost of Evaluation Studies

Condition:

We understand the Authority incurs costs to perform evaluation studies required under its grant agreements. The Authority capitalizes these costs and amortizes them over a 15-year period. These studies, at times, are replaced by other studies and written off prior to the expiration of the 15-year amortization period. In addition, there is no specific identifiable project that they relate to.

Recommendation:

The Authority should revisit the appropriateness of the useful life assigned to the cost of these studies for amortization purposes.

Documented Procedures for the Processing of Federal Awards

Condition:

A handbook describing standard operating procedures on recordkeeping over federal awards should be created and personnel should be cross-trained to handle recordkeeping and reporting of federal awards. The Authority's accounting division does not have a written policy that describes staff responsibilities nor does it provide procedures for periodic monitoring, verification and reporting of program progresses and accomplishments. In addition, there is no formal tracking system to alert staff of when the financial and federal reports are due.

Documented Procedures for the
Processing of Federal Awards, continued

Recommendation:

The Authority should establish written policies for the processing of financial and federal transactions, as well as policies to enhance compliance with the terms of the grant agreements. The Authority should also create a formal system to enhance its timely processing and review for reporting.

This communication is intended solely for the information and use of management and the Board of Directors of the Authority, others within the organization, and the Guam Office of Public Accountability, and is not intended to be and should not be used by anyone other than these specified parties.

We have separately reported in our letter dated January 29, 2013 addressed to the Authority's Board of Directors certain information technology issues that we consider to be deficiencies.

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

Ernst + Young LLP