

PORT AUTHORITY OF GUAM

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL**

SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Port Authority of Guam:

We have audited the financial statements of the Port Authority of Guam (the Authority) as of and for the year ended September 30, 2004, and have issued our report thereon dated March 15, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item number 04-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Port Authority of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte + Touche LLP

March 15, 2005

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Schedule of Findings
September 30, 2004

Finding Number 04-01 – Accounts Receivable - Trade

Criteria: Management review of accounts aged ninety days and older needs to occur on a regular basis to effectively monitor collectibility of customer accounts.

Condition: We reviewed fifteen accounts with balances of \$5,000 and over, accounting for 80% of account balances aged 120 days and over. Of the fifteen accounts amounting to \$674,461, all were disputed. Of this amount, approximately \$306,000 is recommended for write-off by management.

Cause: While regular review of accounts is documented and adequate allowances are established, long disputed accounts do not appear to be considered for write-off.

Effect: Without proper review, accounts may be left to become long overdue and enforcing collectibility becomes difficult and costly. Accounts receivable may be materially overstated.

Recommendation: Management should regularly review the collectibility of accounts aged over ninety days. The Authority should consider utilizing a collection agency for accounts deemed uncollectible. After all collection efforts have been exhausted, long outstanding accounts should be recommended to the Board of Directors for write-off.

Auditee Response: Most of these accounts over 120 days are from companies that have been referred to prior legal counsel. The Port management has reviewed these accounts and has enforced all actions to collect outstanding balances. These customers are either no longer doing business on island or have declared bankruptcy.

We concur that we should put a closure for long outstanding accounts that are recommended for write-off. The Port Authority of Guam is looking into the options of hiring a collection agency.