

December 29, 2004

CONFIDENTIAL

Board of Directors
Guam International Airport Authority

Gentlemen:

In planning and performing our audit of the financial statements of Guam International Airport Authority (the Authority) for the year ended September 30, 2004, on which we have issued our report dated December 29, 2004, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

Finding No. 1 – Payroll Control Testing

Criteria: Employee hours earned should be reported accurately based on approved timesheets and other related payroll documentation (i.e. approved overtime requests).

Condition: Hours credited to one employee were incorrectly input.

Cause: There appears to be a lack of internal controls over ensuring that employee hours are input correctly.

Effect: The employee was underpaid by \$84.

Recommendation: We recommend that the Authority make the necessary adjustment and pay the employee for hours earned.

Finding No. 2 – Accrued Annual Leave

Criteria: Per PL-27-005, employees with accrued annual leave in excess of 320 hours as of February 28, 2003 can accrue excess annual leave at that level until retirement or termination from service. An excess of up to 100 hours can be transferred to sick leave if such request is made by each fiscal year end.

Condition: As of September 30, 2004, three (3) employees accrued annual leave available in excess of the 320-hour limit aggregating \$1,218. Seventeen (17) employees accrued excess annual leave hours over their February 28, 2003 balance, amounting to \$4,708.

Cause: The annual leave register was not checked to ensure compliance with the criteria.

Effect: The result is an immaterial \$5,926 overstatement of annual leave expense.

Finding No. 2 – Accrued Annual Leave, Continued

Recommendation: We recommend that the employee balances be modified to reflect correct hours as of September 30, 2004 and be brought into compliance with Public Law 27-005.

Finding No. 3 – Custom Fees

Criteria: 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 Authority is to remit all collections, within five days of receipt, to the Treasurer of Guam for deposit to the Customs, Agriculture and Quarantine Inspection Services Fund.

Condition: A commuter airliner chartered from Guam has been disputing the custom fees since inception. The cumulative charges amount to \$293,685 as of September 30, 2004 and have been recorded as a receivable and a corresponding payable in the financial statements. Public Law 23-45 does not specify the party ultimately responsible for amounts not collected.

Cause: The cause of this condition is that the specified charges have yet to be collected.

Effect: In the event of non-payment of custom fees, the Authority may be found responsible for the airline's liability.

Recommendation: We recommend that the Authority consult with legal counsel to determine whether it may have ultimate responsibility, under Public Law 23-45, for unpaid custom fees.

Finding No. 4 – Accrued Annual Leave

Criteria: Full-time employees accrue 6 hours of annual leave every pay period.

Condition: For one out of four employees tested, the employee's annual leave hours were not accrued for one pay period.

Cause: There appears to be weak internal controls over ensuring that employees are credited the correct number of annual leave hours.

Effect: As the employee has accrued hours in excess of the amount he is allowed to accrue, which is the 320-hour maximum plus the number of hours accrued as of February 28, 2003, there is no financial statement effect. However, if the employee had not exceeded his maximum accrual, he would have been shorted 6 hours of annual leave, equivalent to a shortage of \$132.

Recommendation: The Authority should evaluate and strengthen internal controls over ensuring that employees are credited the correct number of annual leave hours.

Finding No. 5 – Payroll

Criteria: Authorized employee deductions should be properly deducted from employee paychecks.

Condition: In one of 25 employees tested, the retirement contribution was not properly deducted. The employee retirement contribution form provides two options: (1) inclusion, all earned pay is subject to retirement contribution calculation and (2) exclusion, the basis of calculating the contribution is regular pay. An employee tested indicated inclusion as the type of retirement contribution; however, exclusion was inaccurately input into the payroll system.

Cause: There seems to be a lack of internal controls over ensuring that information is verified upon data entry by the Human Resources department.

Effect: The employee has been under-deducted for retirement contributions since the pay period ended March 15, 1995. The amount of under-deduction cannot be determined.

Recommendation: We recommend that the Authority make the necessary corrections to reflect the correct amount of retirement contribution. Information regarding employee retirement contributions should be accurately recorded and verified with employee authorization forms. In addition, payroll status changes should be verified by someone other than the individual responsible for data entry into the payroll system.

Finding No. 6 – Outstanding Purchase Orders

Criteria: Expenses and assets should only be recorded for goods and services actually received.

Condition: Outstanding purchase orders at year-end were recorded as payables and work in progress.

Cause: Controversy apparently exists as to how to carry over outstanding purchase orders at year end.

Effect: Payables and work in progress were overstated by \$73,385.

Recommendation: Generally accepted accounting principles require that expenses and assets only be recorded for goods and services incurred or received. Outstanding purchase orders should not be recorded in the financial statements for budgetary purposes. However, supplemental financial statements on an encumbrance basis can be utilized to satisfy management concerns.

Finding No. 7 – Travel Advance

Criteria: Under section 6.01 of the Travel Policy, all travelers are required to submit a Travel Expense Report to the Authority within ten (10) calendar days after returning from travel. The accounting department should then review invoices supporting the Travel Expense Report to validate charges made and to determine whether a shortage or overage occurred and correspondingly seek reimbursement from or pay a reimbursement to the traveler.

Finding No. 7 – Travel Advance, Continued

Condition: For one of four travel authorizations (TA) tested, the final expense reports were filed late.

<u>Travel Authorization</u>	<u>Date returned</u>	<u>Date Filed</u>	<u>Days Late</u>
TA-02-07-238	7/13/02	8/4/03	377

Cause: The Authority is not closely monitoring the status of outstanding travel expense reports.

Effect: Noncompliance with Authority policies and procedures results from the condition. In some cases, travelers may have been compensated for improper or nonexistent expenses.

Prior Year Status: This finding was listed as a fiscal year 2003 and 2002 finding.

Recommendation: We recommend that the status of outstanding travel expense reports be monitored more closely.

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This report is intended solely for the information and use of the Board of Directors and management of Guam International Airport Authority.

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