

Management Letter

Port Authority of Guam
(A Component Unit of the Government of Guam)

Year ended September 30, 2023





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The Board of Directors
Port Authority of Guam
1026 Cabras Highway Suite 201
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In planning and performing our audit of the financial statements of the Port Authority of Guam (the Authority), a component unit of the Government of Guam, as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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:

Compliance with Financial Policy related to Bond Indenture

Observation:

The Working Capital Reserve Account was established within the Capital Improvement Fund established under the Bond Indenture. Pursuant to the Working Capital Reserve for O&M Policy, the Working Capital Reserve Account requirement is equal to 180 days of operational and maintenance costs of the current fiscal year (the “Working Capital Reserve Account Requirement”). Upon the issuance of the 2018 Bonds, the Authority intended to deposit \$3.0 million into the Working Capital Reserve Account from unrestricted cash balances and intended to fund the remainder of the Working Capital Reserve Account Requirement over a five-year period. Amounts on deposit in the Working Capital Reserve Account may be used to pay for operational and maintenance expenses if current cash flow is insufficient for such purpose.

As of September 30, 2023, the balance of the Working Capital Reserve Account is below the requirement.

Recommendation:

While the Working Capital Reserve Account may be used to pay for operation and maintenance expense, we recommend management to consider maintaining the level of balance required and document the utilization of the account when cash flow is insufficient.

Impairment of Assets

Observation:

The Authority sustained damages on its Golf Pier due to the impact of Typhoon Mawar. Management represented that restoration efforts are needed to restore its service utility and have an active project for the restoration.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets*, provides that evidence of physical damage that is of such a level that restoration efforts are needed to restore service utility is an indicator of impairment.

As of September 30, 2023, the net book value of the assets considered impaired amounting to \$1.3 million was adjusted during the audit.

Recommendation:

We recommend management to ensure that controls are in place to assess its capital assets for impairment in accordance with GASB Statement No. 42 especially after the occurrence of natural disasters.

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

Ernst + Young LLP